

# Public Utilities

*FORTNIGHTLY*

Volume 57 No. 4



February 16, 1956

## THE VALUE OF THE REGIONAL ANNUAL MEETING

*An Interview with Eugene A. Yates*

« »

## State-owned Utilities in Sweden And Their Regulation

*By Hans A. Heimbürger*

« »

## Public Attitudes towards Utilities

*By Thomas C. Campbell, Jr.*

« »

## Advantages and Disadvantages of Various Depreciation Methods



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(Second Edition)

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- Strength and Failure of Materials
- Design Assumptions, Stress Evaluation, and Design Limits
- Local Components
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- Flexibility Analysis by the General Analytical Method
- Flexibility Analysis by Model Test
- Approaches to Reducing Expansion Effects: Expansion Joints
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# Public Utilities

## FORTNIGHTLY

VOLUME 57

FEBRUARY 16, 1956

NUMBER 4



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# Pages with the Editors

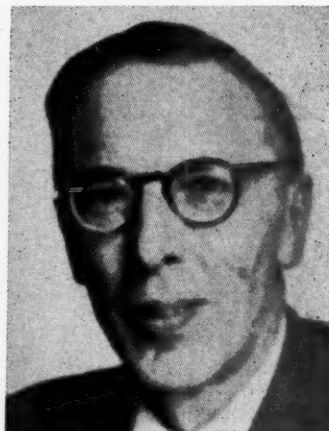
A LITTLE more than a year ago, there was published a photograph of a lot of typical, relaxed American people enjoying themselves at some kind of a meeting under a canvas tent. The caption said they were enjoying some southern fried chicken. But that was obvious.

It could have been a church dinner, or a lodge dinner, or a political dinner, or any other kind of an outing which would bring a group of fun-loving Americans out on a sunny day to eat chicken under a tent, in congenial surroundings. What interested the editors, however, was the fact that these people eating fried chicken on an obviously warm day—some in shirt sleeves, slacks, and other informal attire—were stockholders “in meeting assembled.” Of course, the actual meeting had been adjourned for lunch. But the very idea that such a group could be so closely connected with what is usually considered a rather conservative and formal proceeding was an eye opener.

UPON reading the smaller type accompanying the photograph, it turned out that these stockholders were the guests of the Gulf Power Company, a subsidiary of The Southern Company, which was holding its 1955 annual meeting near the site of the company’s steam-electric generating



EUGENE A. YATES



HANS A. HEIMBÜRGER

plant just outside Pensacola, Florida. There were about 500 of these stockholders and they came to enjoy a day’s outing and proceeded to do so.

WHILE regional meetings of stockholders are not entirely new, this example of its practice in the utility industry aroused our editorial interest. And so Ralph S. Child of the editorial staff of this publication was assigned to interview EUGENE A. YATES, board chairman of The Southern Company. The leading article in this issue is the result of that interview and contains a verbatim report of Mr. YATES’ statement to Mr. Child. It will be noted therein that the “camp meeting” near Pensacola in 1955 was not the first of these meetings. The first had been held in 1953 at Martin dam, in Alabama, and proved so popular that another was held in 1954 at Plant Yates in Georgia, and the third was held in Florida.

\* \* \* \*

PUBLIC ownership of public utility services is so commonplace on the European continent that one does not hear much discussion in those countries about whether or not it is “socialistic.” It is generally admitted to be so. Argument on that issue seems to be confined more or less to the

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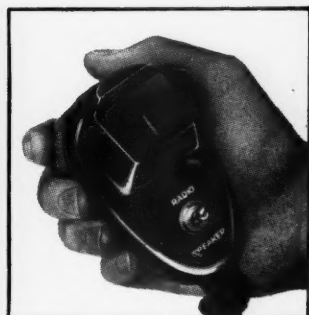
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United States and other areas where government-owned operations have only begun their penetrating advance into a realm hitherto reserved for private enterprise in recent years. So, it is an academic question to ask in some of these European countries whether state operation of utilities per se is Socialism, because the state operates so many other forms of enterprise that there is very little doubt about the existence or advance of Socialism.

BUT in some respects government operation of utilities in Europe differs quite a bit from latter-day experiments along the same line in the United States. For one thing, it was often the result of necessity, not choice or policy. Those state utility monopolies which go back beyond the present century often were created because of a default in private enterprise. Venture capital, before the turn of the century, was not very plentiful for experiments in new utility operations. So, if the government had not taken the initiative, these services would not have been started or at least started as early as they were. It was not a case, in other words, of the government taking over or displacing an *existing* system of private industry operations, subject to government regulation, such as prevails in the United States.

IN Sweden, another characteristic has been noted regarding government operation of utility services. That is an insistence on independent and businesslike administration to assure orderly and effi-

cient management, and to make certain that the services are paying their own way. There is provision, or at least allowance, for both interest and tax components. There is a recognition that depreciation accruals on a strict cost basis (such as prevails in many state regulatory systems of the United States) are not realistic in the light of replacement costs.

HANS A. HEIMBÜRGER, whose article on state-owned utilities in Sweden begins on page 222, is head of the financial department of the Swedish Board of Telecommunications. This department chiefly handles financial and rate questions for the Swedish Telecommunications Administration. Born in 1896, MR. HEIMBÜRGER after university studies in mathematics, statistics, and political economy, entered the Swedish Telecommunications Administration in 1920 as a statistician. He was in charge of telegraph statistics from 1932 to 1941, at which time he became head of the board's financial division. He has been Swedish delegate to international communications conferences and is the author of several volumes on the history of the Swedish Telegraph Administration, which goes back to 1853.

\* \* \* \*

THOMAS C. CAMPBELL, JR., whose article on public attitudes with respect to utility operations begins on page 230, is a native of Virginia and a graduate of Lynchburg College (AB, '42) and the University of Pittsburgh (PhD, '48). During World War II he served as a naval officer and is now a Lieutenant Commander in the Reserve. He joined the faculty of West Virginia University in 1948 as assistant professor of economics and was promoted to assistant dean of the college of commerce in 1955. He is also associate professor of economics, specializing in transportation and public utilities.

THE next number of this magazine will be out March 1st.

*The Editors*



THOMAS C. CAMPBELL, JR.





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# Coming IN THE NEXT ISSUE

(March 1, 1956, issue)



## **HOW EFFICIENT IS THE BRITISH NATIONALIZED ELECTRIC INDUSTRY?**

The nationalized electric industry of Great Britain has been critically analyzed in a recent report of an independent committee appointed to study it by the British government. The 7-man committee enumerated a series of faults, but said, in its unanimous report to Parliament, that the nationalized British electric industry is burdened with many faults, both technical and administrative, but cannot be condemned, on the whole, as being inefficient. Francis X. Welch, editor of **Public Utilities Fortnightly**, has examined a special committee report and has written a digest article analyzing the various problems discussed which might be of interest to utility regulatory and management people in the United States, on a comparable basis.

## **THE UTILITY FORECASTER HAS NO CRYSTAL BALL**

It is generally known and assumed that utility companies have to plan for increasing capacity to take care of increasing demands for service. They must foresee economic, geographic, and population trends as they affect the service area. Specific planning and location of future buildings and similar long-range projects must all be born on the drawing boards of those whose duty it is to project the utility company's needs into the future. James H. Collins of Hollywood, California, business author, has written an interesting general story, following personal interviews, of how these "forecasters" operate.

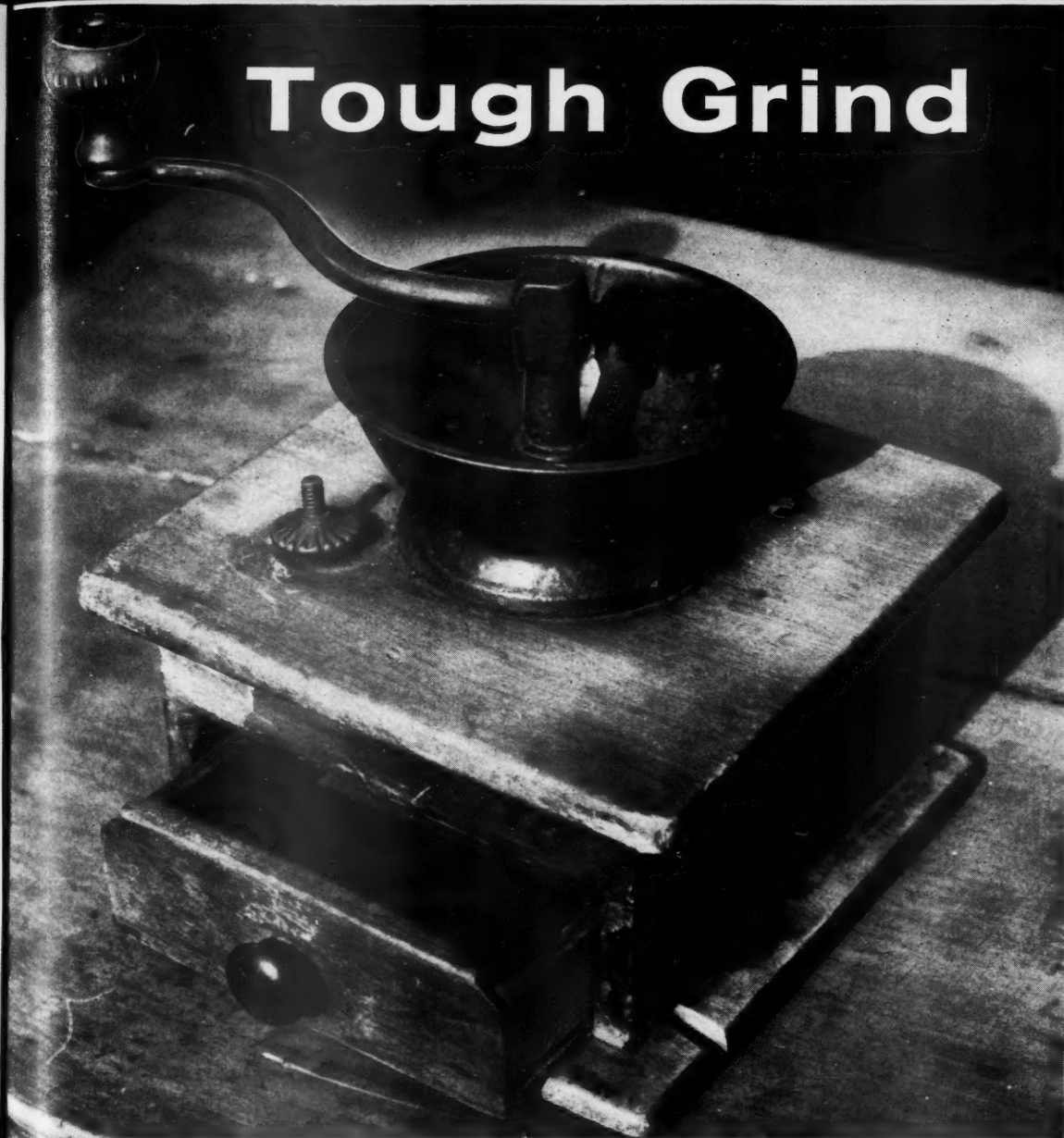
## **POLITICAL INTERESTS OF THE UTILITY STOCKHOLDER**

With every sign pointing towards a red-hot presidential campaign in the months to come, the utility companies find themselves likely to be an issue. But like the old joke about the dogs fighting over the bone, the bone itself cannot take any action. Its fate must be decided to some extent by the outcome of the contest between others. Utility management, "caught in the middle" of conflicting social and economic viewpoints of various political contestants, finds itself helpless to take affirmative and decisive action. Who, then, is able to look out for the important stake of the utility investor? One answer would seem to be the utility investor himself—but only to the extent that he is united with other investors in some manner independent of utility management, as such. William Jackman, president of the Investors League, Inc., gives us a brief but timely argument to the effect that utility investors can best help themselves by joining forces or taking frank, united, and forthright action in their own defense.



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*Vice president in charge of gov-  
ernment affairs, National Retail  
Dry Goods Association.*

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LEWIS L. STRAUSS  
*Chairman, Atomic Energy  
Commission.*

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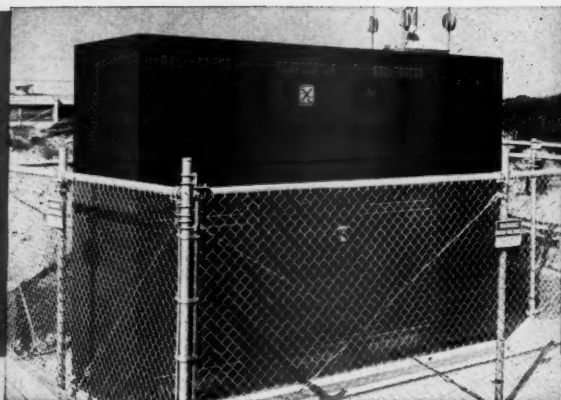
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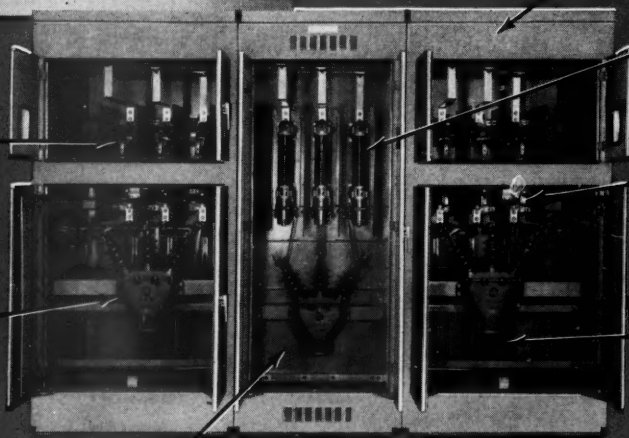
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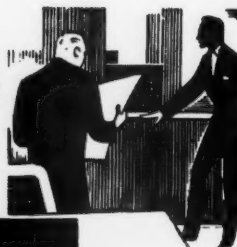
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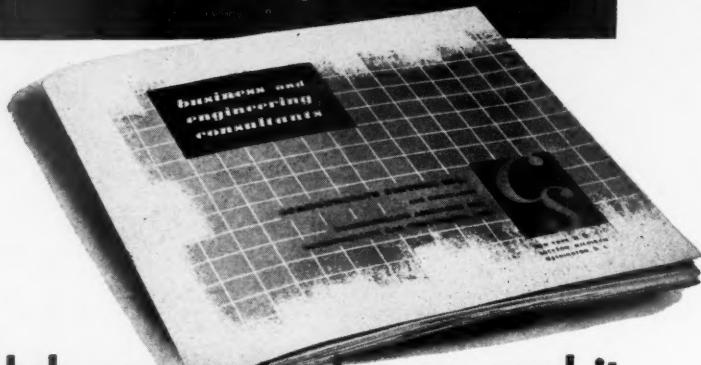
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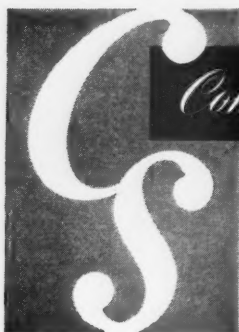
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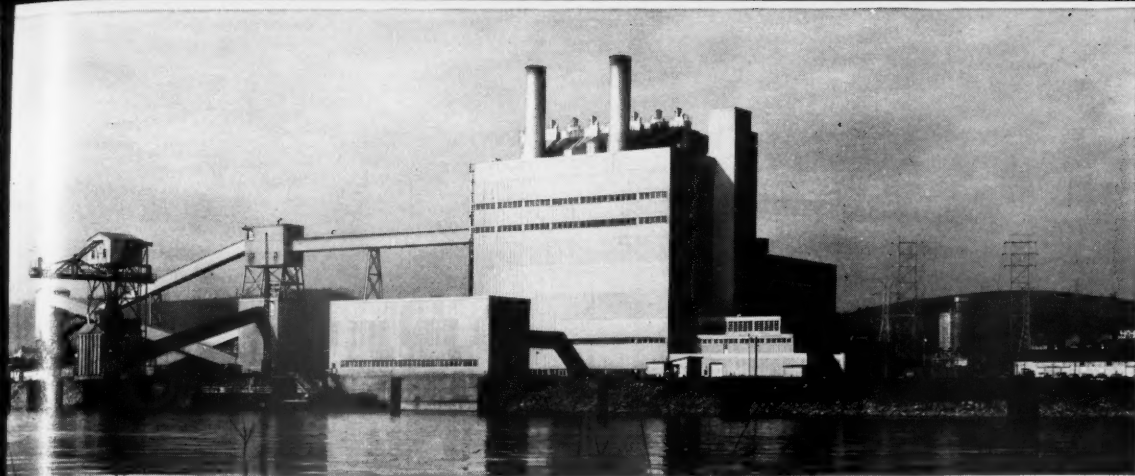


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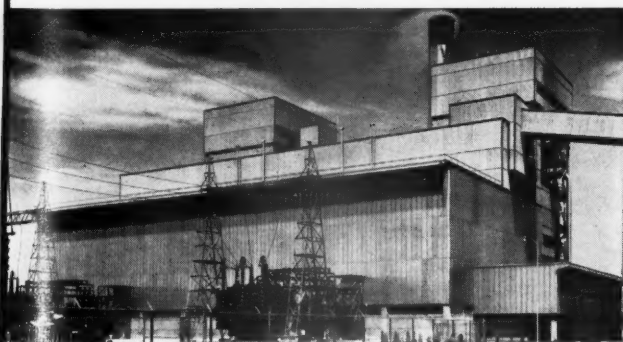
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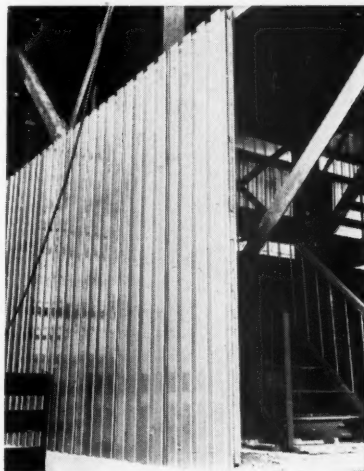


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# UTILITIES

## *A.l.m.a.n.a.c.k*

### FEBRUARY-MARCH

<b>Thursday—16</b>  <i>Associated General Contractors of America end 4-day national convention, New York, N. Y.</i>	<b>Friday—17</b>  <i>National Society of Professional Engineers begins annual spring meeting, Washington, D. C.</i>	<b>Saturday—18</b>  <i>Rochester Electrical Exposition begins, Rochester, N. Y.</i>	<b>Sunday—19</b>  <i>Kentucky Independent Telephone Association will hold annual convention, Lexington, Ky. Mar. 6. Advance notice.</i>  
<b>Monday—20</b>  <i>Edison Electric Institute, Meter and Service Committee, begins meeting, Cleveland, Ohio.</i>	<b>Tuesday—21</b>  <i>Pennsylvania Electric Association, System Planning Committee, ends 2-day winter meeting, Pittsburgh, Pa.</i>	<b>Wednesday—22</b>  <i>Southeastern Electric Exchange will hold annual conference, Boca Raton, Fla. Mar. 12-14. Advance notice.</i>	<b>Thursday—23</b>  <i>National Adequate Wiring Bureau begins annual conference, Chicago, Ill.</i>
<b>Friday—24</b>  <i>Natural Gasoline Association of America begins Permian basin regional meeting, Odessa, Tex.</i>	<b>Saturday—25</b>  <i>National Association of Corrosion Engineers will hold annual conference, New York, N. Y. Mar. 12-16. Advance notice.</i>  	<b>Sunday—26</b>  <i>National Electrical Manufacturers Association will hold meeting, Chicago, Ill. Mar. 12-16. Advance notice.</i>	<b>Monday—27</b>  <i>American Society for Testing Materials begins committee week, Buffalo, N. Y.</i>
<b>Tuesday—28</b>  <i>Northeastern Liquefied Petroleum Gas Association begins convention and trade show, Washington, D. C.</i>	<b>Wednesday—29</b>  <i>American Management Association ends 3-day annual electronics conference and exhibit, New York, N. Y.</i>	<b>MARCH</b>  <b>Thursday—1</b>  <i>Southern Gas Association begins distribution management conference, New Orleans, La.</i>	<b>Friday—2</b>  <i>New England Gas Association will hold annual meeting, Boston, Mass. Mar. 22, 23. Advance notice.</i>



*Photograph by Gabriel Benzur*

### **Where the Stockholders' Money Goes**

*Interesting detail of the switchyard of Plant Atkinson of Georgia  
Power Company, near Atlanta, Georgia.*

# Public Utilities

## FORTNIGHTLY

VOL. 57, No. 4



FEBRUARY 16, 1956

## The Value of the Regional Annual Meeting

*This is an account of a utility management's experience with three annual meetings, held in various sections of the company's system areas. On the whole, local stockholder response has been advantageous to the company's interests and shows approval of the company's conduct of the business. It demonstrates the genuine interest of local stockholders in the operations of the utility plant into which they have placed their investment.*

An interview with  
EUGENE A. YATES\*  
CHAIRMAN OF THE BOARD, THE SOUTHERN COMPANY  
as told to Ralph S. Child

A NEW kind of neighborly meeting has come to the Deep South. In some respects it resembles the older, more familiar church or community meetings under canvas. These meetings reveal a community of purpose, plus a desire on the part of the directors and the manage-

ment people to point to a definite goal of the enterprise. It creates an opportunity to explain the instruments and methods, including physical plant facilities, to be used in arriving at that goal. These gatherings are annual meetings of utility stockholders held on the scene of system company operations.

\*For additional personal note, see "Pages with the Editors."



## PUBLIC UTILITIES FORTNIGHTLY

Late last spring, Gulf Power Company was host to stockholders of its parent, The Southern Company. More than 500 stockholders and guests came from eighteen states to attend the meeting. The site was the Crist steam-electric generating plant near Pensacola, Florida. About 87 per cent of the outstanding shares of Southern Company stock were represented either by proxy or in person—a heart-warming demonstration of interest.

This was the third such annual gathering of stockholders within the service area of The Southern Company system. The 1954 meeting was held at Plant Yates, in Georgia, and the 1953 meeting at Martin dam, Alabama. It is felt that these meetings have afforded an excellent opportunity for stockholders to see something of the territory served and some of the physical properties. It offers, too, an unequaled chance to meet members of the system companies. These meetings have been deemed so successful that the board has determined that it be done again. This year (1956), the annual meeting of stockholders will be held in the service area of the Mississippi Power Company.

How did it all start? Here, Mr. Yates, chairman of the board of The Southern Company, tells the story as he related it to this writer:

Six annual meetings of the stockholders of The Southern Company have been held since the common stock was distributed to the public in 1949 upon the dissolution of its parent company, The Commonwealth & Southern Corporation. As Southern is a Delaware corporation it was natural that the meetings were first held in Wilmington, Delaware, continuing the practice which prevailed while Southern

stock was owned by Commonwealth.

The company has over 120,000 stockholders in every state of the Union and in foreign countries. It seemed strange that at the Wilmington meetings in 1950, 1951, and 1952 only a handful of stockholders attended and seldom made comment or asked questions. The meetings were short and very uninteresting.

Following the 1952 meeting the directors determined to hold the next annual meeting within the service area of one of the subsidiary operating companies and selected the Martin dam hydro plant of the Alabama Power Company for the 1953 meeting. This is a storage development with a large reservoir, on a site of great natural beauty, situated on the Tallapoosa river in central Alabama, and located within convenient distance of Montgomery, Birmingham, and Atlanta.

The company felt that a stockholder would become more interested in the company's affairs if he had the opportunity to see with his own eyes some of the physical property owned and operated by the company and to have the operation of these facilities explained to him by an employee of the company; also, a meeting within the service area provided an opportunity to see part of the rapidly growing Southeast, upon which the future of the company depends.

THE Alabama meeting at the Martin dam project was so successful that the board determined to rotate future meetings and hold them in the territory of each of the four operating companies.

With the formal notice of each meeting to each stockholder there was included an invitation to attend the meeting, together with a business-reply post card to be re-





### The Benefits of Regional Meetings

*"It is impossible to appraise with exactitude the benefits Southern is deriving from the practice of holding its stockholder meetings within its service area. As compared with the total number of stockholders, the attendance at the meetings is not large and many of those in attendance come from the states served by the operating companies of the system. It has been gratifying to the management that the stockholders who have attended the meetings have shown great interest in the company and its affairs and have been enthusiastic proponents of holding the meetings in the service area."*

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turned by those who wished to come. Those who returned the post cards received more detailed information, including a highway map and other information of interest.

The company provided air-conditioned buses at Atlanta, Montgomery, Birmingham, Mobile, and Pensacola and other cities to bring the stockholders to the plants, although many of the stockholders came in their own cars.

By presenting discussions of various matters affecting the company and its business, the directors hoped to stimulate stockholder attendance and stockholder interest in company affairs. (One such presentation at the 1955 meeting was an

address on the need for full participation by private enterprise in atomic power development.) It was hoped also that a closer relationship between stockholders and management would be established if the stockholders had the opportunity to see, face to face, the directors for whose election their proxies were solicited and the officers and employees who have been entrusted with the responsibility of running their company.

The importance of these objectives is self-evident, particularly in view of the necessity for additional equity financing for Southern in the future and the ever-present problems arising out of public power.

## PUBLIC UTILITIES FORTNIGHTLY

In addition to the formal agenda, the program for the meetings included a welcome by public officials of the state and local governments, a review of the year's operations by executives of the company, and addresses by company officials on various matters of interest to the stockholder.

The attendance varied from 500 to 700, of which about 60 per cent were stockholders and the balance were friends of stockholders and company men. There were stockholders present at each meeting of from 18 to 20 states.

After the meeting a luncheon was served and either a motion picture shown, describing the company service area, or exhibits prepared by the operating companies were on view. (At the recent meeting a scale model of an atomic power plant was the center of attention.) Many of the stockholders took the opportunity to meet the directors, officers, and employees of The Southern Company and the operating companies and they were also taken on a guided tour of the plants. Much interest was shown and numerous questions were asked regarding the company. Many favorable comments were received after each of the meetings.

**I**T is impossible to appraise with exactitude the benefits Southern is deriving from the practice of holding its stockholder meetings within its service area. As compared with the total number of stockholders, the attendance at the meetings is not large and many of those in attendance come from the states served by the operating companies of the system. It has been gratifying to the management that the stockholders who have attended the meetings have shown great interest in the company and its affairs and have been

enthusiastic proponents of holding the meetings in the service area.

Since the practice began there has been a modest increase in the number of stockholders in the service area, while the total number of stockholders decreased slightly. In this period the company has made subscription offers of its common stock to stockholders on three occasions, with gratifying results. There has also been an increase in the percentage of the outstanding shares represented at the meetings by proxy, the 1955 percentage being 87.5 per cent as compared with 72.3 per cent in 1950.

While undoubtedly many factors have helped bring about improvement in stockholder relations, the management believes that the regional annual stockholder meetings have also contributed to this end and are well worth while.

**T**HE foregoing statement, by way of interview with Mr. Yates, indicates the basic idea of this company's management behind the regional stockholders' meeting. At the 1953 meeting at Martin dam, for example, the morning session, presided over by the board chairman—Mr. Yates, lasted only one and a half hours. Stockholders heard a review of recent developments in the company's affairs, an appraisal of prospects for future industrial and economic developments of the service areas, and a summary of operating results for the preceding year. There was also some routine company business which usually must be disposed of at almost any stockholders' meeting, such as changes in the number of directors, election and reelection of board members, and so forth.

But one need only look at the faces of these stockholders sitting under the great

## THE VALUE OF THE REGIONAL ANNUAL MEETING

canvas tent at Martin dam "in meeting assembled"—as the corporation lawyers say—to realize that it was anything but a perfunctory or routine gathering. There were young faces and old faces. There were even some children who had accompanied their elders. Near the front row one could see the bronzed features of a veteran farmer intent on catching the words of the speakers on the platform. One had only to mingle with the crowd during the luncheon which followed the formal meeting session to appreciate that this was the form of a meeting as truly democratic as one that might be held in a town hall in New England or elsewhere in our country. It was a cross section of various business and professional people, housewives, folks enjoying their retirement leisure, but still interested in the growth of American industrial enterprise.

In no other way, perhaps, could these diverse elements be brought together in a common, informal, congenial setting so that they might speak with each other as neighbors.

ONE does not ordinarily consider the ownership of a share of stock as admitting one to any kind of organization or association for purposes of social contact. Indeed, it is probable that people who buy and sell corporate shares give little thought to what kind of other people might also be buying and selling the same corporate shares.

The Southern Company regional meetings are at least a revelation of what we should have known all along. That is, that those who buy utility stocks (or any other industrial shares for that matter) are not

a tribe of abstract, affluent, absentee coupon clippers or dividend receivers, living in large city penthouses or passing the seasons at fashionable resort communities. They are, for the most part, typical American citizens—hard-working, thrifty, intelligent people who have been willing to invest their savings in the future of a sound, basic industrial venture.

Coming face to face at such regional meetings on the very scene of a physical plant activity, they naturally recognize in each other similar attributes of thrift and confidence in the same enterprise. And this feeling in turn is likely to result in further reinforcement of confidence in the business wherein they have made the same investment.

In short, stockholders "in meeting assembled" are probably a good deal like people in other kinds of meetings held for worth-while purposes. At least the regional meeting experiment tends to demonstrate that point.

THE sum total of American society is composed of various groups and movements—farmers, workers, operating business people, technical, scientific, and professional people, labor unions, people interested in education and cultural arts. But the fact that stockholders per se might become interested in each other or at least interested in seeing each other—the fact that they also might become fused into a new kind of movement or a group having a community of purpose based on individual conviction, is perhaps an untapped vein in American life. Perhaps, also, the regional stockholders' meeting is one way of exploring possibilities along this line.



## State-owned Utilities in Sweden And Their Regulation

In Sweden the state government owns and operates the utility services. But there is also provision for independent and businesslike administration of these state-owned agencies—to assure orderly and efficient management and to make certain that the services are paying their way.

By HANS A. HEIMBÜRGER\*

**P**UBLIC utilities in Sweden are partly state owned, partly municipally owned, or private. The whole of the postal service, and most of the telecommunications and railways services, are operated by the state. As to electric power, some 40 per cent is produced by a state administration, whereas the rest is supplied by private and municipal enterprises, some of the "private" enterprises being, however, owned in common by the municipalities and industries interested.

The distribution of gas and electricity in Swedish cities is as a rule provided for by the municipalities, and the distribution of electric power in the rural districts is

generally handled by state, municipal, or "private" enterprises. The latter, however, are to a great extent organized as local co-operative associations. In the matter of bus and truck traffic most enterprises are private, although nearly half of all the bus line are operated by the state-owned Postal and Railway administrations, as a natural complement to their normal activities, or by municipalities.

### *Business-operating Administrations*

**T**HERE are four state-owned, business-operating administrations in the public utility field in Sweden. These operate (1) the posts, (2) telecommunications (telephone and telegraph), (3) railways, and (4) the production of electric power.

\*Head, financial department, Board of Swedish Telecommunications. For additional personal note, see "Pages with the Editors."



## STATE-OWNED UTILITIES IN SWEDEN AND THEIR REGULATION

All these administrations carry on their activities much on the same lines, and they are all subordinate to the Ministry of Communications.

With the exception of the electric power administration, they were all founded long before the ideas of "nationalization" or of a "Labour party" were known. A state-operated postal service was organized as early as 1636, or more than three hundred years ago. A state-owned telegraph administration followed in 1853, and a railway administration in 1856. The initiative taken by the state in providing telegraph and railway facilities was simply due to the fact that at that time Sweden was a country short of capital, where no one but the state was able to raise the funds needed. As far as the railways were concerned, the necessary capital was provided to a great extent by means of loans contracted abroad. The reason for which the state started the building of water-power installations was that since olden times the state was owner of waterfalls, and the government desired to make them remunerative. It was then considered more advantageous for the state to establish its own power works than to lease the falls to private companies. The first state-operated water-power installation—at Trollhattan—was brought into service in 1910.

As regards telephones and railways the state later pursued a systematic policy of taking over private plants and systems. In the case of electric power, however, such transfers have rather been the result of accidental circumstances.

Most of the private telephone networks—which were generally small enterprises without the financial resources required to keep pace with technical progress—

were bought up by the Telecommunications Administration during the 1890's. These purchases were the results of the initiatives of one single man; *viz.*, the then head of the Telecommunications Administration, who considered it necessary to create a uniform telephone system comprising the whole of the country. They, moreover, took place at a period when for the first time it had become possible to telephone over distances of some length.

The only private telephone company at this time owning a network of some importance and possessing financial resources was the Stockholm private telephone company, and for a long time the Diet (Parliament) refused to have it bought out, desiring thus to maintain a system of rate competition favorable to the public. In the long run, however, the maintenance of two competing telephone enterprises in one and the same city proved to lead to absurd consequences. The private company finally agreed to make over its network to the state on acceptable conditions, and a purchase was effected in 1918.

In the case of the railways the state from the outset built the main lines traversing the country, but these were gradually supplemented by a network of private railroads mostly intended for local traffic. Following a resolution of the Diet most of these private lines were taken over by the state in the course of the 1940's. The main reason for this "nationalization"—as it might be called in this case—was the desire to reap the benefits likely to result from a fuller use of the rolling material, etc., in case all railroads were amalgamated into one single enterprise. But the purchase also implied that the State Railways had to take over some nonremunera-

## PUBLIC UTILITIES FORTNIGHTLY

tive narrow-gauge lines. One contributory reason for the step taken certainly was that owing to bad finances some of the private railroads kept a higher tariff rate, and offered lower wages, than the State Railways.

There are but a few cases of incorporation of private power-generating enterprises with the state-owned Hydro-Electric Power Administration. On the other hand, it is somewhat more usual for the state to take over local enterprises for retail distribution.

As mentioned already, bus-line traffic has been taken over to a rather great extent by the Postal Administration and the State Railways.

### *Finances*

**I**N principle, the state-owned business-operating enterprises are expected to keep such rates and tariffs as enable them to defray their operating costs, *including depreciations*, out of their own revenues and moreover to deliver a certain surplus to the public treasury. The funds required for extensions are supplied by the state. As these extensions refer to installations expected to be profitable, it is considered the right thing, from a budgetary point of view, for the state to procure these funds by loans and not by tax revenues. No interest on these loans, however, is entered

as an item of expenditure in the administrations' account books. But, in principle, the state demands that the surpluses delivered by the administrations should not fall below the state's corresponding outlays for interests.

The whole of the surplus recorded in the books, after depressions, having to be delivered to the public treasury, it has not been considered necessary to order the administrations to deliver one part of their gross proceeds in the form of taxes and the remainder in the form of interests and net profits.

It may be of interest to notice that in case any of the administrations are ordered to effect installations not expected to be profitable—*e.g.*, for defense purposes—the entire costs relating thereto must be assigned by the Diet out of tax money and should thus be written off immediately.

**C**ONTRARY to what is the case with the British General Post Office, for instance, the Swedish business-operating administrations perform their activities in complete independence of the public treasury.

Just to mark the special position held by the business-operating administrations as compared to other state administrations, the Diet does not fix any estimates of expenditure for their operating costs;



	<i>Capital Invested By the State June 30, 1955</i>	<i>Surplus Recorded, After De- preciations</i>	<i>State Outlays For Interests</i>	<i>State Profit Or Loss</i>
Posts .....	99.9	17.3	3.0	14.3
Telecommunications ..	1,333.2	86.8	40.3	46.5
Railways .....	1,612.9	25.4	50.6	-25.2
Hydroelectric Power .	2,071.7	101.7	60.6	41.1
Totals .....	5,117.7	231.2	154.5	76.7

## STATE-OWNED UTILITIES IN SWEDEN AND THEIR REGULATION

thus only their estimated surpluses are shown in the state budget.

In this connection it may be mentioned that all of the four administrations dealt with here—thus including the Postal Administration—are at present in a position to yield an annual surplus, but in the case of the State Railways this surplus is not always sufficient to cover the state's outlays for interest on the loan capital invested. The reason for this is, of course, the keen competition nowadays offered by highroad traffic. When taken together, however, the four administrations are delivering to the public treasury an amount exceeding the outlays for interest on their capital. The latest figures available, relating to the financial year July 1, 1954, to June 30, 1955, and expressed in millions of Swedish kronor (100 Swedish kronor = \$19.30), are as shown in the table on page 224.

**D**EPRECIATIONS must be effected, by all the administrations, on strictly businesslike principles, and the state has now accepted that they be made on the basis of *replacement* values instead of book values. As regards the Telecommunications Administration, for instance, the normal depreciation rates are as follows: 4 per cent on telephone and telegraph plant, 10 per cent on radio plant, and 2 per cent on real estate (excluding sites).

By application of the replacement value principle, the actual depreciations relating to the financial year 1954-55 amounted to 6.3, 15, and 2.9 per cent, respectively. The sums written off annually are immediately invested in new plant. Loans are contributed by the state only to the extent to which the depreciation amounts are not sufficient to cover the installation costs of

the year. During the financial year 1954-55 the Postal Administration defrayed 56 per cent of its new plant by means of loans, and the corresponding figures for the Telecommunications Administration, State Railways, and Hydro-Electric Power Administration were 32, 54, and 80 per cent, respectively.

It should be mentioned here that the state-owned business-operating enterprises are paid a regular remuneration for any work effected on behalf of another state institution. Thus the posts are remunerated for such commissions entrusted to them by the state as the paying of general old-age pensions, and all state institutions have to pay ordinary postages for their postal correspondence, though for the sake of simplicity these payments are effected on the basis of sample surveys. From these principles, which were laid down to permit of ascertaining the actual financial results of the activities of each administration, it follows, for instance, that the National Defense remunerates the State Railways for military journeys and transports; that the Telecommunications Administration and the State Railways pay the Posts postages for their correspondence; and that the Posts pay telephone subscription rentals and call and telegram charges to the Telecommunications Administration, on the one hand, and freight charges for mail transports by rail to the State Railways, on the other hand.

### *Competence*

**A**LL of the four state enterprises here dealt with have a very independent position, but there are certain questions which are to be decided either by the government alone or, on the proposal of the government, by the Diet.



### State Service Must Be Self-sustaining

*"... the guiding principle in determining the levels of postal, telephone, telegraph, and railway rates, and of tariffs for electric power, is that the REVENUE OF THE ADMINISTRATION CONCERNED SHOULD BE SUFFICIENT TO COVER ALL OPERATING COSTS, INCLUDING DEPRECIATION AND INTEREST ON CAPITAL BORROWED. The amounts of the depreciation, it is true, are also fixed by the government, but the government has recognized the necessity of adequate depreciation by admitting that they may be made on the basis of repurchase values. In order that the prices of electric power applied by the Hydro-Electric Power Administration may be the same as those charged by other producers of power, A TAX IS INCLUDED IN THE PRICE CALCULATIONS."*

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Thus, for instance, the amount of capital to be invested each year in new installations is fixed by the Diet on the proposal of the government. In recent years, in view of the more or less imminent danger of inflation, the government has considerably reduced the capital requirements of the administrations, taking into consideration the whole of the economic resources of the country in their relations to both the state, the municipal, and the private sec-

tors of industrial life. This adjustment problem is, of course, a very complicated one. Opinions are divided as to how far the government has succeeded in solving it; but since this question essentially falls within the sphere of political discussion, it should, perhaps, not be taken up here.

As to rates for services rendered by the business-operating administrations, the rule applicable from of old is that the



## STATE-OWNED UTILITIES IN SWEDEN AND THEIR REGULATION

chief postal charges are fixed by the Diet, whereas the government fixes the fundamental rates for telephone subscriptions, inland telephone calls and inland telegrams, as well as for railway fares and carriage by rail.

Such rates as are not fixed by the government or the Diet—*e.g.*, as regards the Telecommunications Administration, rates for private branch exchanges, extension telephones, international calls and telegrams, etc.—are determined by the respective administrations. The Hydro-Electric Power Administration itself fixes the price of electric power.

As mentioned already, the guiding principle in determining the levels of postal, telephone, telegraph, and railway rates, and of tariffs for electric power, is that the *revenue of the administration concerned should be sufficient to cover all operating costs, including depreciation and interest on capital borrowed*. The amounts of the depreciation, it is true, are also fixed by the government, but the government has recognized the necessity of adequate depreciation by admitting that they may be made on the basis of repurchase values.

In order that the prices of electric power applied by the Hydro-Electric Power Administration may be the same as those charged by other producers of power, *a tax is included in the price calculations*.

The fixing of salaries, especially as regards top-level officials, offers to the business-operating administrations a problem as important as difficult of solution. Employees' salaries are, indeed, fixed by the Diet, and it has proved very difficult hitherto for the administrations to make the government and Diet appreciate the necessity of paying efficient people better

than what is allowed by the state salary scale.

The problem is further complicated by the embarrassing shortage of labor, especially as regards engineers, which has been prevailing of late years, and which has considerably forced up the level of salaries paid by private employers.

On the other hand, the Diet does not fix the wages of workers. Just as in private industry, these are fixed by agreement between the enterprises and the workers' unions. As a result hereof, there is no appreciable difference in workers' wages between the state and the private sectors. Furthermore, workers are guaranteed old-age and family pensions on the same conditions as are applicable to officials, and these conditions are more liberal than those applied in private industry—in so far as such emoluments are at all provided there.

THERE are some other fields as well where state enterprises have to conform to state decrees, but these are of less importance and may therefore be omitted here. Suffice it to add that officials of the highest ranks are appointed by the government, which must be considered quite normal, since the state is the owner of the enterprises.

In the case of the very top-level posts it has been considered of first importance always to have these entrusted to suitable persons. Appointments to such posts are, therefore, made only for a limited period, generally six years, at a time. In other respects, however, the directors of the enterprises themselves may act on their own, without interference from the government, in the management of the enterprises' affairs, and they also enjoy a great amount of freedom in the matter of ap-

## PUBLIC UTILITIES FORTNIGHTLY

pointment and promotion of officials up to those below the highest levels.

**I**N Swedish state administration it is an old tradition—intended to give the administrations an independent position—that there must not be any form of ministerial government; *i.e.*, a Minister must not issue orders direct to an administration subordinate to him. The general lines guiding the activities of a state administration, whether it be a business-operating one or not, must be fixed by the Diet or by official decrees which are open to public inspection and are legally binding.

It may be of interest to observe in this connection that—with one single exception—no changes of personnel take place either in the business-operating administrations or in the rest of administering bodies in cases of change of the country's political régime. The exception refers to the post held in the ministries by the nearest man below the Minister, which post is provided with a new occupant at the entry into office of a government of another political color.

### *Form of Management*

**A**T the head of the state administrations are placed directors general appointed by the government. In the Postal and Telecommunications administrations, as well

as in the State Railways, these directors general alone have the right of decision, whereas in the Hydro-Electric Power Administration important matters are decided by a special board consisting of the director general, president of the board, and four other members, who must not be employees of the administration but have to represent financial, technical, or juridical knowledge, industries, or agriculture.

At the State Railways there is a consultative body comprising representatives of commerce and industry. Moreover, as regards the State Railways and the Hydro-Electric Power Administration, the government appoints two principal auditors entrusted with examining the management of the administrations in question and submitting a report thereon.

### *Co-operation with Other Enterprises*

**I**N certain cases there are subsidiary enterprises attached to the business-operating administrations and organized as independent companies. Thus, for instance, the State Railways have such subsidiaries attached to them for the manufacture of railway cars, and for ship, bus, and truck traffic. Unlike any other state-owned Telecommunications Administration in the world, the Swedish Telecommunications Administration has factories of its own for the manufacture of tele-



**Q** "PUBLIC utilities in Sweden are partly state owned, partly municipally owned, or private. The whole of the postal service, and most of the telecommunications and railways services, are operated by the state. As to electric power, some 40 per cent is produced by a state administration, whereas the rest is supplied by private and municipal enterprises, some of the 'private' enterprises being, however, owned in common by the municipalities and industries interested."

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phone material; these factories, however, have not been organized as an independent enterprise—even if this question has been up for discussion—but only form a part of the administration as a whole.

When requiring material of different kinds, the Board of Telecommunications invites tenders both from its own factories and from private companies and then allows the matter to be decided by the prices offered. In this way, rational methods of work at the Telecommunications factories are guaranteed, on the one hand, and a useful control of the prices of private factories are obtained, on the other hand. Of course this implies that the Telecommunications factories should as far as possible calculate their prices on the same basis as private companies, and the factories are, therefore, charged with all the costs borne by a private company.

The Hydro-Electric Power Administration has some subsidiary companies for retail distribution—most of which, however, are retained only temporarily, during the period between the purchase of their shares and their subsequent liquidation—as well as some factories of its own, which are run much on the same lines as the telecommunications factories.

**A**LL international telephone, telegraph, and radio communications are handled at the Swedish end by the Telecommunications Administration. Co-operation is established with a private cable company owning telegraph cables from Sweden to Great Britain and Finland, but this company is not in direct contact with Swedish users of the telegraph service.

The Swedish broadcasting service has been organized from the outset on principles implying that the Telecommunications Administration is charged with the erection and operation of transmitting stations and the establishment of circuits necessary for program transmission, whereas the production of programs is entrusted to a special company created for the purpose, in which the state has no financial interests but has been guaranteed control by the right of appointing its president and half the number of members of the board of directors. The service is financed exclusively by license fees—of at present 20 Swedish kronor—to be paid for the right of using radio receiving facilities.

These fees are collected by the Telecommunications Administration, which in turn pays to the company what is needed for the program production.

A regular television service has not yet been introduced, but test transmissions are at present being made by the above-mentioned company in co-operation with the Telecommunications Administration.

**I**N view of the fact that all major power stations in Sweden and the majority of its minor stations are interconnected by means of a jointly operated distribution network, the Hydro-Electric Power Administration and other important power enterprises have formed an organ of co-operation, called the Central Operation Management. Although this organization was at first intended for war conditions, it is still exercising certain important functions even in peacetime.



## Public Attitudes towards Utilities

*This author sees a great need for public education to offset the spread of unfair and distorted ideas about the way utilities operate and their relations with the consuming public. There is, for example, the overemphasis and publicity given to the "burden" on rate-payers when reference is made to any change or increase in utility rates.*

By THOMAS C. CAMPBELL, JR.\*

**A**s a teacher observes the attitudes and lack of understanding of students and others toward the public utilities, the need for greater public education becomes glaringly apparent. In a great many cases, people are hardly aware that the utilities exist until there is an interruption of service. Paying the bills does not make one as aware of the existence of the utilities as he is of many of the other industries, since the utility bills take a relatively small proportion of his income. Making use of the utilities becomes a routine matter because they require little effort by customers and are constantly available. Turning on the lights or television or the gas kitchen stove, or making a telephone call is so commonplace that the

customer is much more aware of the television program, the food being cooked on the stove, or the conversation on the telephone than he is of the utilities themselves.

**T**HIS is vastly more true of utilities than of any of the other major industries. For example, as one acquires and uses an automobile, he is aware of the automobile industry. He has an idea of changing styles of automobiles. He knows something about who makes the automobiles and the relative sizes of the manufacturers. He knows that the automobile industry is a big and important industry and is interested in knowing whether the industry is growing and how fast. Much the same thing is true with other products and industries with which the public is in constant contact. Developments in the preparation of food such as frozen foods are widely known by members of the public. They are not very much aware, however, that none of this preparation can be possible without

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using gas and electricity in the cooking and freezing of the food. We are well aware of clothes but little aware of the electricity used to provide the light for the factory and the power for the machines used in the production of clothes.

### II

THE most glaring lack of understanding of the nature of a public utility is the almost complete lack of awareness of the need for a fair and reasonable return on the investment. Nearly everyone has some understanding about profit and loss in nonutility businesses. The understanding may not be complete, but people usually know that each business hopes to make a profit and will cease operations if it experiences continued losses over a period of several years.

Contrary to what many of us think, a public utility will also cease operations if it experiences continued losses over a period of many years. It is not in the nature of a regulatory commission to be able to force a utility company to remain in business indefinitely, if it continues to operate at a loss with little or no likelihood of earning a profit in the future. After the plant has been worn out, no regulatory agency can force private investors to provide new capital for such an unprofitable organization.

What is a more important practical problem of which the public is very seldom aware is that the earnings of a utility must be reasonably high. Just to get by with a return of 2 or 3 per cent of the investment is not enough. If the earnings are not reasonable compared with their sources of private investment, the utility company will likely continue in business for several years. However, its ability to expand its

operations and to take full advantage of improvements in technology will be seriously hampered. It is not widely understood that the public is really the principal loser when a company fails to earn a reasonable return. This fact can be understood if it is pointed out in such concrete illustrations as the inability of the telephone company to provide telephones to new homes being built in the community, or the water company is unable to replace old small water lines with new larger ones so that there will be adequate water pressure in the homes and for fire protection.

EVEN well-informed members of the public often allow their desires for low rates to blind them to the needs of the community for up-to-date and adequate utility service.<sup>1</sup> This is not to imply that rate increases should be permitted without adequate investigation by the regulatory commissions. At the same time, it is doubtful that extreme pressure by public organizations opposing needed rate increases is actually in the public interest. Often, these public organizations are rendering a disservice to the very people whom they are supposed to serve. One of the worst conditions that can exist in a community is for either of the public utilities to be unable to expand as the commu-

<sup>1</sup> A simple illustration of this was experienced during World War II by this writer. As gasoline was rationed and few people had automobiles, the owner of a school bus in a community near a naval establishment had the bus driver take people to the base each morning before driving the children to school and pick up the workers after having taken the children home. Those who rode the bus purchased tickets, and the driver punched the ticket for each ride. The price of the tickets was not unreasonable and no one seemed to complain. The driver, being a "good fellow," often would not punch the ticket. Everyone thought that was extremely nice of him as it meant a free ride. However, the owner soon stopped running this bus because his costs were greater than the revenue he was receiving. It is obvious who were the real losers.

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nity grows. In fact, the community cannot grow if the utilities are unable to extend the services to new homes and new business establishments.

The general public does not understand the real meaning of a public regulated monopoly. The attitude of many people is largely the result of reading about the so-called monopolies of the last century and how the public suffered from the actions of certain of the industrialists of that period. The utilities of today in no way resemble the nineteenth century monopolies. In the first place, a utility company has a franchise to provide all of a particular type of service to a community, not because the company was able to kill off competitors, but because the granting of an exclusive right of service to a company provides the best service at the lowest possible cost to the consumers.<sup>2</sup> Likewise, the typical attitude of a utility executive today toward community development and welfare is very much different from the attitudes of monopolists of more than a half-century earlier.

**T**HE general importance of the utilities to the local community and to the economy in general is not realized by the public. This is true to some extent because

<sup>2</sup> This is discussed in "Telling Teachers about the Utilities," by James H. Collins, PUBLIC UTILITIES FORTNIGHTLY, March 17, 1955, p. 305.

the utilities are not usually locally owned as many of them were at one time. The fact that many local people own utility stocks does not seem to influence this fact very much. Those who own stock in American Telephone and Telegraph Company often do not associate their stock with the telephone company providing the local service and do not realize that the local telephone companies must make a reasonable return on the investment, or dividends on the stock which they possess will be affected. This problem is not, however, limited to privately owned utilities. Those owned by municipalities face much the same problem. A lack of understanding of the financial needs of many municipally owned water companies is widespread. There is the same objection to rate increases and lack of interest in having a water company charge rates that will enable it to provide adequate service to the community. The objection takes place without proper consideration of the needs for additional revenue or why the needs exist and what are the likely consequences should the rate increase be continually refused.

**M**ANY of the utility companies have done amazingly well in either avoiding rate increases or in keeping the increases unusually small during and since World War II. That fact is not widely



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known or appreciated. This has been done by instituting certain operating economies at a time when wages and prices in general have risen considerably. The unfortunate fact is that it will not be possible to continue to find additional means of cutting expenses should prices and wages continue rising as they have risen in the past two decades. There obviously is a limit to efficiency at any given time. With the great emphasis on efficiency during the past three decades, limits beyond which no greater efficiency is possible are probably nearer than at any other period in the history of the utilities.

One can hardly expect members of the general public to understand problems of financing utility expansion. The public is interested in having the utilities expand at rates that will make additional service available as it is needed. How this is done and the financial procedures involved are not and cannot be generally understood. Nevertheless, this is one of the most important of all problems facing utility management.

THE thinking of the general public seems to be that the big companies have an endless supply or endless sources of funds for additional improvements and expansion. Since utilities are not permitted to earn enough to do more than a small portion of their expanding from past earnings because such earnings would lead to reduced rates and corresponding reductions in revenue, they must seek funds for expansion from the current financial market.

Consequently, the public is the loser, if utility rates are so low as to endanger the ability of each company to acquire the additional capital needed to meet the grow-

ing demands of the public. This is a fact which must be kept in mind by the regulatory agencies. Since it is not a matter that can be generally understood by the public, the regulatory agencies should refuse to bow to popular demand by disapproving needed rate increases.

TAXATION of public utilities is one area in which there is great danger of excesses and unwise action by the public. A utility company should meet its community responsibilities and pay taxes just as other businesses have to assume their proper share of the tax burden. The utilities should be granted no special tax concessions that are not available to other industries. On the other hand, it is doubtful whether it is ever wise to single out utilities for special taxes, especially when the primary reason is that it is the method that will be met by the weakest political objection.

Very often, state and local governments have been unwilling to seek direct sources of taxation and have resorted to the indirect method of various forms of utility taxes which are added to the ordinary tax burden of the companies. It seems quite obvious that most of the advocates of special utility taxes realize that the actual burden must be borne by the customers in the form of higher rates, or something less than the best possible service. It very likely would be in the public interest to meet the tax needs in a direct manner instead of taking such action that seems on the surface to be placing the burden on the large utility companies. In general, a utility must earn a reasonable return after all taxes are paid. Furthermore, higher taxes mean higher rates must be collected to enable the company to have



### The Realistic Approach to Public Understanding

*"To take an attitude that nothing can be done toward greater public understanding of the utilities would definitely be a defeatist position. At the same time, to be extremely optimistic about rapid progress is unrealistic and of little more value than a defeatist attitude. Therefore, there must be a middle ground in which there is patience accompanied by a determined and hopeful effort that real progress will be made. The public should be made aware of the genuine social progress that takes place as a result of developments by the utilities. Likewise, conditions necessary for maximum continued progress should be stressed."*

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a reasonable return after all expenses are met, including taxes.

### III

AFTER having discussed many factors or areas of lack of understanding of the utilities, it is appropriate to explore some possible ways of bringing about improvements. One of the major causes of the public attitude toward the utilities is a general lack of understanding of our economic system and how it works. Any improvements in this general area take place very slowly; often such improvements are so slow that it is discouraging. Yet, there are improvements which are gradually

taking place. The workshops on economic education sponsored by the Joint Council on Economic Education seem to be heading in the right direction with public schoolteachers being afforded an opportunity to learn more about our economy in general. The teachers, in turn, using the knowledge gained in their classroom, can work to improve economic knowledge in our young people. Also, greater emphasis might be placed on the economic and industrial accomplishments of this nation in the American history courses. A fuller understanding and appreciation of American history is an extremely important purpose of our educational system.



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There are also limitations to what might be accomplished by individual companies and trade associations. Many attempts by company representatives are interpreted as being propaganda or nothing more than ordinary advertising. This often is unfortunate as many times there is a sincere interest in trying to reveal the truth as it actually exists. Also, it is difficult for one so closely allied with his organization to see his industry in its proper perspective and not overemphasize what to him seem to be obvious facts. This, along with general public skepticism, makes it very necessary that the public learn more about utilities at the same time the utility companies are doing everything possible to become better known and better appreciated.

**P**ART of the lack of interest in utilities in general is the result of a lack of community interests by certain utility executives in the past. Very often, executives thought all that was needed was for the customer to get the service when he needed it. Nothing else was either necessary or desirable. That, however, is not the typical attitude of executives and probably never was.

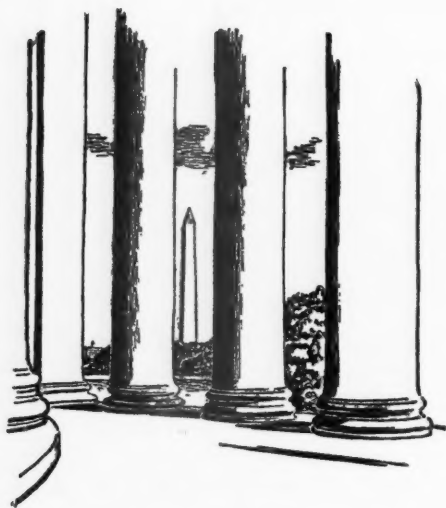
Yet, there are still some utility executives who are seemingly unaware of the community around them.

Providing utility service is a very impersonal task. It is much different from selling a product to a customer who receives the product as he pays for it or is billed for it later. With sales of this type there is the personal contact that seldom exists with the utilities. Therefore, there is a need to compensate for the lack of personal contact with the consumer. Along

with the lack of personal contact, electricity, gas, and water themselves are extremely impersonal and are easily taken for granted.

Because of this reason, it might prove to be very helpful for the telephone industry to push the sale of colored telephones. No one would deny that black telephones will provide just as good service as colored ones. But colored telephones that fit into the color scheme of a room are different from those that are in rooms only because that is the only method by which one can make a telephone call. Radios and television sets have customarily been considered to be part of the furniture of a home. Telephones have not. Having become an item of attractive furniture might well prove to be very desirable, with increased public interest in the service and a better attitude of what is required to provide good service.

**T**o take an attitude that nothing can be done toward greater public understanding of the utilities would definitely be a defeatist position. At the same time, to be extremely optimistic about rapid progress is unrealistic and of little more value than a defeatist attitude. Therefore, there must be a middle ground in which there is patience accompanied by a determined and hopeful effort that real progress will be made. The public should be made aware of the genuine social progress that takes place as a result of developments by the utilities. Likewise, conditions necessary for maximum continued progress should be stressed. Those who receive the greatest benefits from this progress are none other than the general public.



### *Senate Refused to Shelve Gas Bill*

THE Senate vote on the controversial Fulbright Bill to exempt independent producers from most forms of regulation by the Federal Power Commission came as no surprise to those who had closely followed the pattern of the two weeks' debate which preceded the test vote. During the second week of the debate, observers were puzzled by the lack of opposition which had been expected to materialize. Senator Douglas (Democrat, Illinois), who delivered a 5-day address exhaustively marshaling the arguments for the opposition to the bill, spoke at times to a Senate chamber almost empty.

When Senator Humphrey (Democrat, Minnesota), one of those who had been expected to speak up against the bill, explained that he had been absent from the debate on business of the Agriculture Committee, Douglas replied wryly that he had only been trying "to hold the fort until the big guns come up." Subsequently, Senators Humphrey and Kennedy (Democrat, Massachusetts) and other Democrats did join the debate in opposition to the measure. But for more than a week

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Douglas just about "held the fort" alone, with some scattered assistance.

The real challenge came with the motion of Senator Potter (R., Mich.) to recommit the bill to committee pending investigation of alleged attempts of improper influence on the vote of Senator Case (R., South Dakota). When the Senate, by a vote of 66 to 30, refused to shelve the measure, the bill was saved from pigeonholing for the session.

THE tall, gray former economics professor was armed with about 150 pages of prepared text weighing a pound and three-quarters. On the first day, after two and one-half hours devoted largely to interpolations and exchanges with Senator Russell B. Long (Democrat, Louisiana), he had read three and one-half pages.

"It's worth debating a month," he told the four Senators still in the chamber, "and I'm ready for at least three weeks myself." But he had finished his main address after four more days. In this prepared text, Senator Douglas accused the industry of raising "a war chest of at least

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\$1,500,000" to promote the pending bill. This, he said, "indicates the nature of the campaign we have seen and may expect."

A major development of GOP support for the bill occurred when Senator Styles Bridges (New Hampshire), chairman of the Senate Republican Policy Committee and the ranking Republican member of the body in terms of tenure, vigorously threw his support to the measure. Bridges emphasized he was speaking as an individual Senator and not as a party leader. Speaking in the name of "free enterprise," Bridges asserted that "the continued emphasis on more federal laws to protect the public seems to me to be wrong on several grounds."

"Continued increase in federal agencies, the concomitant of more federal laws, tends to destroy our system of a federated republic," he asserted. Bridges' action came as no surprise since he had voted for a similar measure, known as the Kerr Bill, which was passed by the Senate but vetoed by President Truman in 1950.

**T**HE attack by Bridges on price regulation at the wellhead as adverse to free enterprise was protested by Senator William A. Purtell (Republican, Connecticut), who has announced his opposition to the bill. Pointing out that he, too, is a New Englander, Purtell said that free enterprise to him meant free competition and free determination by a purchaser as to from whom he would buy. In the natural gas production industry, he said, there are no such elements. He stated:

There is no competition in natural gas production. And, until there is, the federal government must protect the consumers through price regulation. The producers are collecting 10 cents a thousand cubic feet today and it may be 30 cents if the price regulation is re-

moved. We are not protecting competitive Capitalism through this bill. We are injuring it.

Meanwhile, it became apparent that floor managers for the Fulbright Bill would follow a strategy of refusing to accept amendments to the measure. This course of action was intended to forestall another full-scale debate in the House which might take place if the Fulbright Bill went back to Senate-House conference for adjustment of any substantial differences between the Senate bill and one passed last summer by the House. The House bill was approved by a margin of only six votes—209 to 203—despite terrific pressure put behind it by Speaker Sam Rayburn (Democrat, Texas).

By restricting Senate amendments to technical changes of a minor nature the antiregulation forces hope to obtain House concurrence without opening the main issue up to debate again, thus avoiding the risk of the House rejecting the bill. Senator Pastore, a vigorous opponent of the measure, suggested new language in the bill governing the producer prices that could be reflected in rates charged by pipeline companies. As the bill was presented, the FPC would have the authority to fix rates reflecting no more than "a reasonable market price" to be paid by the pipelines to independent producers. Pastore wanted this language changed to "a just and reasonable" price.

**F**ULBRIGHT dismissed Pastore's suggestion as "utterly worthless." Fulbright said that "just and reasonable" price meant something quite specific in law—cost plus reasonable return, which this bill is attempting to get away from.

Pastore asserted that the "sleeper" in the bill is the provision that application of controls begins at the point where the gas is sold to the pipeline for interstate trans-

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mission, rather than at the wellhead. Fulbright countered with the argument that continuation of present controls at the wellhead—as decreed by the United States Supreme Court in 1954—would mean less gas eventually because producers would be reluctant to explore for new supplies under such regulations. This, he said, would lead inevitably to a price rise for the consumer.

Senator Prescott Bush (Republican, Connecticut) told Fulbright that he would like to see amendments in the bill specifically spelling out what factors the FPC would take into consideration in determining “reasonable market value.” But Fulbright again was unreceptive, replying that regulatory bodies have had ample precedent for defining such a phrase.

### *Two St. Louis Meetings*

ADMINISTRATION power policies and practices have again been sharply criticized from the speaker's platform at an annual National Rural Electric Cooperative Association convention. Anti-administration statements made in St. Louis before delegates from REA cooperatives throughout the nation generally followed the usual custom of that organization. Clyde T. Ellis, NRECA general manager, opened this session with an attack on the report of the Presidential Advisory Committee on Water Resources Policy, released last month, which he said “endorses most, if not all, of the recommendations of the Hoover Report on Water Resources and Power.”

Representative Jones (Democrat, Alabama), chairman of a House Government Operations subcommittee which has been “studying” Hoover Commission recommendations pertaining to water resources policy, also criticized present power policies. The political nature of his approach

was shown by his statement that “the surest way to change administration policy is to change administrations.” Republican Governor Hall of Kansas supported the President's philosophy and program for rural electrification, but said it had been confused by Washington politicians who had been “sold a bill of goods” in supporting the Dixon-Yates contract and private development of dams at Hell's Canyon.

REA Administrator Nelsen, however, stressed the values of local independence, fostered by current practices, in opposition to an REA program laid down solely by “bureaucrats from Washington.” In looking to the challenge of the future, he calculated that REA systems will need approximately twice as much capital in the next twenty years as they have in the first twenty. He said that new generating plants and related transmission facilities will have to be built in the amount of an estimated \$3 billion.

According to REA estimates, by 1976 farmers will be using at least 45 billion kilowatt-hours, three times their present requirements. In appraising current programs and objectives, the REA Administrator said that “nearly all” of the nation's 300,000 unelectrified farms could be serviced in the next five years. Co-op financial positions are “the strongest . . . ever . . .” He stated that the administration was going “right ahead with our policy of meeting the farmers' needs for electrification and telephones.” “One of the greatest threats to this program,” he warned, “is the politics that is sometimes played with it.”

THE first public presentation of the Cabinet Committee on Water Resources Policy report was made at another meeting in St. Louis, held during the same week as the NRECA convention.



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Under Secretary of Interior Clarence A. Davis outlined the contents of the report, which was sent to Congress on January 17th, before the National Conference on Water Resources Policy. The Cabinet Committee's recommendations have been called the first proposal of a water resources policy upon which all water resource agencies of the federal government are reported to be in official agreement.

The report recommends: (1) that local governments and private industry bear more of the costs of furnishing an adequate water supply; (2) setting up a top-level water co-ordinator who would oversee the work of all federal agencies dealing with water resources; (3) that the federal government avoid building any project that can be built by nonfederal interests; (4) setting up a board of review, independent of federal agencies, to analyze the engineering and economic feasibility of projects, reporting to the water resources co-ordinator; (5) establishment of water resources committees in each region with federal and state representatives; and (6) provision for a permanent interagency advisory committee on water resources composed of policy-making officials of agencies concerned in water resource development.

CONGRESSIONAL reaction to the report was partisan in nature. Senator Morse (Democrat, Oregon) said its recommendations were largely a restatement of the Hoover Commission recommendations on water power resources. Senators Hill and Sparkman (both Democrats, Alabama) and Representative Jones (Democrat, Alabama) jointly criticized its silence on the TVA. The Alabamans' statement noted, however, that the report "avoided the use of the word 'power' in discussing the benefits of water resource development, although hydro-

electric power generation is one element that makes most water resources developments feasible."

### *Bills in Congress*

THE Senate Public Works Committee finally voted out (6 to 2) the Lehman Bill (S 1823) on the Niagara redevelopment project. The action came after the committee had defeated, by the same vote, the Capehart Bill (S 6), providing for private enterprise development. The bill of Senator Lehman (Democrat, New York), which is regarded as having a good chance of passing the Senate at this time (not the House), calls for development of the U. S. share of the power at the Niagara Falls site by the New York State Power Authority under a license granted by the FPC, with preference provisions giving public agencies first rights to the power.

Congress approved and sent to the White House a joint resolution authorizing a \$3,000,000 "final" economic feasibility survey of the proposed Passamaquoddy Bay (Maine) tidal power project. Efforts to win passage of the administration-supported plan had been stymied in the House during the past two sessions of Congress. As now adopted, the resolution specifically does not commit Congress to construction of the project itself.

The study, for which \$1,000,000 was provided in the budget for fiscal 1957, will take several years to complete. Its purpose is to determine whether the project could give New England new generating capacity at economic cost.

The House Interior Affairs Committee has approved (14 to 5) a bill (HR 412) to authorize the \$156,000,000 Fryingpan-Arkansas project in Colorado. The Senate has a similar bill pending (S 300).



## Wire and Wireless Communication

### *AT&T Trust Suit Settled*

**T**HE long-pending (since 1949) anti-trust suit against the American Telephone and Telegraph Company was finally settled on January 24th on terms described by the government lawyers as a major victory. Actually, however, the government did not succeed in forcing a divorce of AT&T from its manufacturing subsidiary, Western Electric, as it had originally demanded.

Subsequent performance of AT&T shares and Bell system securities in the money market would indicate that the investing public feels that the long-range effect of the settlement, if not actually beneficial, will not harm the Bell system's earnings.

Herbert Brownell, Jr., Attorney General, announced the signing of a consent decree in the federal court in Newark, New Jersey. Under the terms of the settlement, AT&T must:

1. License 8,600 existing patents to all applicants without royalties.
2. License all its other patents, present and future, to any American concern at "reasonable and nondiscriminatory" rates.
3. Get out of all business not directly connected with the communications field.

4. Maintain uniform cost accounting methods for its manufacturing subsidiary, Western Electric.

As already stated, the original complaint sought to have the courts order either a divorce of AT&T from its manufacturing subsidiary, Western Electric, or a complete dissolution of the latter. Had that been accomplished, Western Electric would have been launched into the telephone and electronic manufacturing fields as an independent organization, creating a new and difficult competitive pattern for various existing manufacturers. Under the terms of the consent decree, Western Electric will continue as the manufacturing branch of the Bell system, but with a mandate of the court to allow certain patents (previously restricted to General Electric, Westinghouse, and Radio Corporation of America) to be used by all American manufacturers, royalty free and without limitation as to time or manner of use.

**B**y leaving Western Electric as the manufacturing arm of the Bell system, state and regulatory commissions continue to have power to control charges for Western Electric services to Bell system operating companies. The regulatory authorities would have no such control

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over Western Electric charges if it were made independent. One interesting aspect of the decree is a prohibition against AT&T or Western Electric continuing in the business of leasing and maintaining facilities for private communication systems not subject to public utility regulation. Putting Bell system out of this type of business (which must be accomplished within five years) should open opportunities for independent manufacturers and electronic appliance services to obtain private industrial communications business which they might otherwise not enjoy.

Stanley N. Barnes, Assistant Attorney General in charge of the Justice Department's antitrust division, said the decree was "one of the most important" in antitrust history. Another department lawyer called it "miraculous."

In New York, Cleo F. Craig, president of AT&T, acknowledged that the terms of the consent decree were "stringent." However, he said, the settlement will leave intact "the unique combination and teamwork of the operating companies, the Bell Telephone Laboratories, and the Western Electric Company that over the years has produced for the people of this country the finest, most widely used, and most progressive telephone service in the world."

### *First Started in 1949*

THE AT&T Case was one of three major antitrust suits brought by the government in the electronics field since World War II. The others, involving the Radio Corporation of America and International Business Machines, also were in negotiation for possible consent settlement.

The IBM negotiations were completed and a settlement reached on the day after the AT&T decree was announced.

The government complaint, filed in

1949, charged that AT&T and Western Electric had "unlawfully restrained and monopolized trade and commerce in the manufacture, distribution, sale, and installation of telephone equipment." It was a civil suit; the government was not calling for a fine but wanted the courts to order changes in AT&T's structure. Specifically, the government asked that the parent corporation give up its interest in Western Electric, that Western Electric be dissolved and its assets divided among three other companies.

The judgment entered last month allows Western Electric to continue as manufacturer to the Bell system. However, several important restrictions are put on the intercompany relationship. First, Western Electric is enjoined from paying any patent royalties to AT&T—a transfer of funds within the system that might be used to justify higher cost figures for rate-making purposes. Western Electric is prohibited from manufacturing any equipment "not useful in furnishing common carrier communications services." For example, the concern will have to sell Westrex Corporation, a subsidiary that makes movie sound equipment. This requirement becomes effective in three years.

Finally, Western Electric is directed to "maintain cost accounting methods which afford a valid basis for determining the cost to Western Electric of equipment sold to the Bell system."

THIS order is an answer to complaints made by federal agencies as early as 1939 that varied Western Electric prices made it impossible for different state regulatory agencies to make fair comparisons of costs. In addition, AT&T itself is forbidden to engage in any business other than communications services subject to government regulation—except for some

## PUBLIC UTILITIES FORTNIGHTLY

research, government work, and business incidental to communications.

The effect of all these restrictions on Western Electric and AT&T, a Justice Department lawyer said, will be to confine them to activities that can be regulated by state and federal utility commissions and to make such regulation easier.

The department indicated that the patent provisions of the consent decree were even more important. The provisions were described as "unprecedented in their breadth and duration." Mr. Barnes said the number of patents opened up by the judgment is "certainly the largest" ever made available at one time. The 8,600 patents, which will now be licensed without royalties, have been held jointly with the General Electric Company, Westinghouse Electric Corporation, and RCA. Royalties on any previously licensed patents have been shared with these three firms.

Among the patents said to be in this now free group are some for transistors, the tiny electronic devices which take the place of vacuum tubes. Developed by Bell Laboratories since World War II, transistors now are used in miniature radio circuits and in many electronic weapons. One government lawyer said reduced royalty rates and increased competition in the industry might reduce the cost of some weapons substantially for the Defense Department.

The consent judgment was drafted in negotiation between the companies and the government. When it was signed by Judge Thomas F. Meaney, it took on the force of a judicial decision. Any violations could be punished by the courts.

### *FCC Wants More TV*

**C**HAIRMAN George C. McConnaughey of the Federal Communications Com-

mission has assured Senate investigators that the FCC is "bending strong effort" to bring more television service to both large and small communities across the nation. McConnaughey told the Senate Interstate Commerce Committee recently that the FCC has given priority to various studies and proposals aimed at overcoming obstacles to broader TV service. The committee, which is looking into the nation's television industry, had asked for a "progress report" on the FCC's work.

McConnaughey said the FCC's current network study is looking into the possibility of increasing competition among networks and between networks and independent stations, program and advertising sources. It also is concerned with the possibility of extending network affiliations to stations in small communities, he said. He stated that if Congress appropriates additional funds, the study should be finished by July 1, 1957. McConnaughey gave no target date for finishing the FCC's investigation of the over-all TV channel allocation plan.

The FCC inquiry is aimed at solving difficulties caused by the mixture of very-high and ultra-high frequency channels in the same areas. The chairman said the majority of commissioners are convinced it would be "contrary to the public interest" to delay granting permits for new UHF stations until the inquiry is finished. Although some UHF broadcasters have asked for such a delay, McConnaughey said, most commissioners feel there is "little basis to assume that the first local VHF station would necessarily eliminate local UHF stations."

**F**CC Commissioner Robert E. Lee suggested that pay-as-you-see television be tried out on ultra-high frequency stations. Lee asked the committee to consider the idea in its current investigation of

## WIRE AND WIRELESS COMMUNICATION

television broadcasting. Chairman Warren G. Magnuson (Democrat, Washington) said the committee would go into subscription TV later in its hearings. Lee said pay-as-you-see TV might be tried on UHF stations only as a means of boosting their revenues. He said that might enable some stations now having financial troubles to stay on the air until the FCC decides whether to authorize a subscription service on a regular basis.

The FCC has been considering for some time whether to permit the service, which would furnish certain special programs to viewers willing to pay a fee to see them. Lee said some controls should be imposed on a UHF trial, such as limiting fee programs to 10 per cent of a station's broadcast time. A standing-room-only crowd turned out for opening of the committee's hearings. After a dispute over the FCC's TV channel allocation policy, the hearings were recessed to give committee members time to study a report submitted by FCC Chairman McConnaughey. The hearings were to resume early this month.

Senator John O. Pastore (Democrat, Rhode Island) said he sees "no hope" for ever "deintermixing" TV channels "with the FCC's attitude." "They are so badly scrambled, you'll never unscramble them," he told the seven FCC commissioners. Deintermixture refers to proposals to end the mixture of very-high and ultra-high TV channels in the same communities, by putting the various communities on all-VHF or all-UHF. Pastore said "UHF and VHF cannot live together in the same community because the big fish eat up the little fish—UHF stations."

**M**CCONNAUGHEY and FCC Commissioner John C. Doerfer defended

the FCC's decision to investigate channel allocations on a nation-wide basis, rather than "deintermixing" channels in certain localities. Doerfer said "unscrambling the allocation plan on a piecemeal basis" would not comply with the FCC's duty to provide an equitable distribution of TV service. He said the FCC has indicated it would "deintermix" channels if its inquiry shows that is in the public interest.

Commissioner Rosel H. Hyde charged that the FCC's dismissal of "deintermixture" petitions for five areas discouraged development of UHF. Hyde dissented from the FCC majority's decision in the five cases last November. He said expansion of the nation's TV service must include UHF stations because there are not enough VHF channels to go around.

### *An Unusual Utility*

**A**COMPANY providing community television antenna service has been held to be a telephone company under a recent ruling by the California Public Utilities Commission. The commission's order involved Television Transmission, Inc., which provides television service to paying subscribers. The service consists of coaxial cable television antenna facilities for some 950 TV set owners in the hilly area of Walnut Creek, Lafayette, and Martinez. In its precedent-making decision, the California commission took jurisdiction over the company following the filing of complaints alleging service deficiencies. (See also, page 280.)

To operate its service, Television Transmission, Inc., has placed a large antenna on a high point, transmitting signals to subscribers via poles and facilities of the Pacific Gas and Electric Company and Pacific Telephone & Telegraph Company.





## Financial News and Comment

By OWEN ELY

### *Rewiring "Finance Plans" Stimulate Residential Use of Electricity*

THE Edison Electric Institute recently announced a national drive for better home wiring. Over 20,000,000 American homes have wiring facilities that are obsolete and under capacity, according to EEI. The average use of electricity in American homes has more than doubled in the past ten years and is expected to double again in the next decade.

The principal reasons impelling home owners to rewire inadequately wired homes are purchase of additional appliances, home remodeling, and added convenience. The air conditioner, electric range, clothes dryer, water heater, and heat pump are among the heavy-duty appliances which usually require rewiring.

The plan is to emphasize the "house-power" theme, and the objectives of the campaign call for extensive magazine, newspaper, and television promotion by utilities, electric manufacturers, contractors, and dealers. In addition to printed and air media support, EEI plans a national contest for home owners, which will run from May through September, 1956. It will offer the winners hundreds of appliance merchandise prizes, as well as a \$10,000 grand prize in cash.

In a special survey of the rewiring pro-

gram last year, *Electrical World* found that the number of electrical services in the home has increased from 19 in 1930 to 54 today, and that residential use of electricity is now nearly four times as great as it was in 1934. Since two-thirds of our homes are over twenty years old (half are more than thirty) they are obviously not wired to handle all the new appliances. Some 43 per cent of the customers still have only two-wire service, hence it is obvious that the biggest markets are in appliances that need 240-volt circuits.

MANY utilities are now devoting a larger part of their advertising budget to the rewiring program in all sorts of vehicles, but there has been a lag in adding personnel to follow up on sales. Special

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## FINANCIAL NEWS AND COMMENT

finance plans to handle the cost of rewiring are gaining in popularity. About 40 per cent of the utilities surveyed had adopted wire-on-time plans, but it was too early to appraise the results. (About one-quarter of the utilities said they did not intend to use such plans, however.) Of those that are helping customers finance their needs, about one-third are doing it "on their own" while two-thirds use the banks either entirely or in combination.

One company in a highly favorable area (selling very cheap hydro power) was able to double its residential consumption in a year with some 400 customers who had modernized their wiring. These results would hardly prove typical for the industry, however.

Consolidated Edison of New York has probably had the toughest rewiring problem of any large utility. Over three-quarters of its apartment dwellings have been inadequately wired, according to Vice President Schofield in *Electrical World*, as well as large numbers of one- and two-family homes. The company began its campaign a little over two years ago and has now rewired 14,000 old homes, while practically all new homes are now three-wire installations as compared with only about 30 per cent in 1952. In apartment houses with nearly 11,000 dwelling units, original capacity has been more than doubled by improved wiring, at an average cost of \$200 per apartment.

**W**ITH about 78 per cent of apartments inadequately wired, however, there is still a big job to do. Many old commercial buildings are also being rewired with Con Ed's co-operation and new buildings with an estimated demand for 145,000 kilowatts will have heavy wiring installations to take care of all foreseeable demands by tenants. The whole program in the two-year period has involved about

\$50,000,000 in equipment and labor.

Con Ed's most effective advertising medium is its sound-color movie "The Magic Link," which has been shown to about a quarter of a million customers. Some 214 prints have been bought by 110 other utilities throughout the country.

### *Net Income of Natural Gas Companies up 15.5 Per Cent*

**F**OR the twelve months ended September 30th, the combined revenues of the gas utilities and gas pipelines passed the \$5 billion level, reaching \$5,108,000,000 for a gain of 14.7 per cent over the previous period. Operating expenses also rose by 14.7 per cent, but maintenance increased only 8.6 per cent and depreciation, depletion, etc., 9.6 per cent, though taxes were 19 per cent higher. Net operating revenues thus gained 15.7 per cent, but other income declined so sharply that the increase in gross income was only 10.8 per cent. Income deductions were 11.2 per cent lower, so that net income was up 10.7 per cent.

These reports included the mixed and manufactured gas facilities. For the natural gas companies alone (constituting about 87 per cent of the total) the increase in revenues was exactly the same as for the entire industry (14.7 per cent) but miscellaneous income made a better showing and fixed charges did not increase so fast, so that net income showed a gain of 15.5 per cent.

These composite income accounts published by the American Gas Association reflect both revenues from sales to ultimate consumers and sales for resale, and therefore should not be interpreted as "net" or "consolidated" statements, since the duplicative effect of including both pipeline sales for resale, and distribution

## PUBLIC UTILITIES FORTNIGHTLY

company sales to ultimate consumers, has not been eliminated.

### *Difficulties with Some Interim Earnings Reports*

AROUND this season of the year, it becomes necessary in our earnings tables to differentiate between those utilities which have now reported for the calendar year 1955 (designated by "Dec.") and those which have not reported any later figures than for the calendar year 1954 (indicated by "Dec. '54"). In the current list (see pages 250, 251, and 252) it will be noted that some nine New England companies have not issued usable interim figures, so that the latest twelve months' figures are for the calendar year 1954. This means that three of our ratios—price-earnings ratio, dividend pay-out, and per cent increase in earnings—are all decidedly out of date as guideposts to investors. Outside of New England there are only two domestic companies (including one managed largely in Boston) which are deficient in this respect, although most of the Canadian companies report only once a year.

Among these New England companies

the most important utility is Boston Edison, which does issue some interim reports, but only covering periods of three months, six months, and nine months, respectively. It would seem a comparatively simple chore for the company to issue its interim figures on a twelve months' running basis so that its common stock could be properly appraised in comparison with other utilities of similar size and quality.

### *"Rapid Growth" States*

THE accompanying chart on page 247, prepared by Ebasco Services Incorporated,<sup>1</sup> indicates the "rapid growth" states for the period 1940-54. As might be expected, the western states lead the procession with Nevada as number one with a population growth of over 91 per cent, Arizona second with 86 per cent, and California third with 81 per cent. Florida ranks fourth with 74 per cent, after which there is a sharp drop to Oregon's 51 per cent. It is surprising, perhaps, to see a couple of eastern states—Maryland and Delaware—among the first ten, while Virginia is thirteenth—surprisingly, it ranks

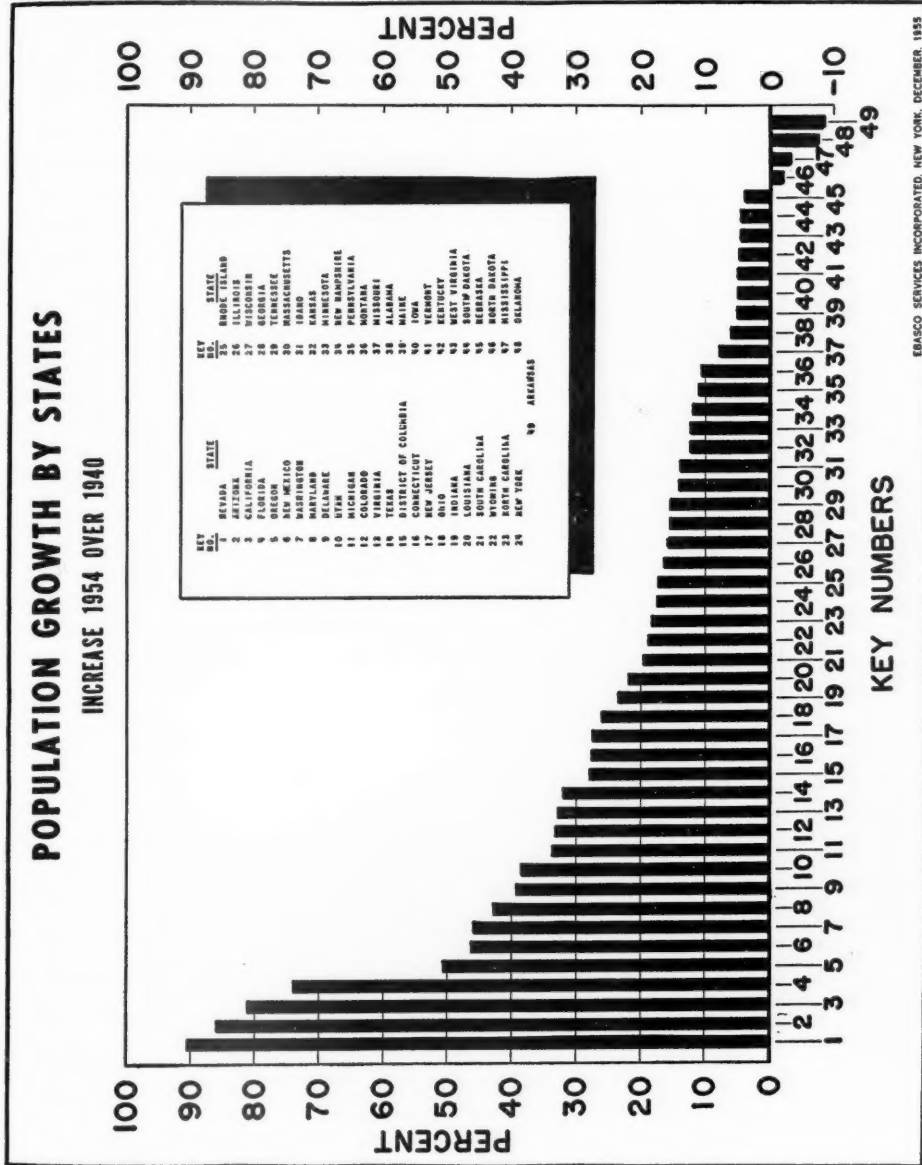
<sup>1</sup>"Business and Economic Charts," December, 1955.

#### CURRENT YIELD YARDSTICKS

	Jan. 27, 1956*	1955-56 Range		1954 Range		1953 Range	
		High	Low	High	Low	High	Low
U. S. Long-term Bonds—Taxable ..	2.83%	2.95%	2.62%	2.70%	2.41%	3.15%	2.70%
Utility Bonds—Aaa .....	3.11	3.19	2.93	3.13	2.86	3.43	3.01
Aa .....	3.14	3.26	2.99	3.19	2.92	3.59	3.07
A .....	3.29	3.36	3.12	3.37	3.11	3.72	3.23
Baa .....	3.50	3.51	3.37	3.72	3.37	3.94	3.50
Utility Preferred Stocks—							
—High-grade .....	3.94	3.98	3.89	4.09	3.85	4.45	4.01
—Medium-grade ....	4.27	4.32	4.19	4.51	4.17	4.87	4.43
24 Electric Utility Common Stocks ..	4.65	4.64	4.32	5.23	4.50	5.72	5.01
30 Gas Utility Common Stocks .....	4.71	4.71	4.29	5.22	4.64	5.66	4.74

\*Approximate date.

Latest available Moody indices are used for utility bonds and stocks; Standard & Poor's index for government bonds.



REASCO SERVICES INCORPORATED, NEW YORK, DECEMBER, 1955

## PUBLIC UTILITIES FORTNIGHTLY

ahead of Texas. New Jersey and New York, with gains of 28 per cent and 18 per cent, respectively, make a respectable showing.

Mississippi, Oklahoma, and Arkansas showed declines, presumably due to the migration of Negro families to the large cities, but Alabama made a better showing with a gain of about 6 per cent. As might be expected, the New England states were in the latter half of the procession, with the exception of Connecticut which ranks sixteenth, presumably due to its machine industry. The average gain for the U. S. as a whole was 22 per cent. The population increases by regional areas were as follows:

New England .....	16%
Middle Atlantic .....	17
South Atlantic .....	28
East North Central .....	23
East South Central .....	6
West North Central .....	8
West South Central .....	17
Mountain .....	37
Pacific .....	71

Ebasco Services also presented a chart (based on Census figures) projecting the future U. S. population, from which the figures in table below were obtained.

### *Analyzing the Credit for Interest Charged to Construction*

IN recent years electric utility companies have made increasing use of the accounting device "Interest Charged to Construction—Credit" in order to sustain share earnings during periods when

heavy construction programs, with resultant financing, were under way. The credit is somewhat of a stabilizing device, to prevent earnings from being penalized during the interim period when new capital is being employed in construction without resultant earnings from operation. Of course when the new construction unit goes into operation the credit ceases. In general, the credit amounts to 6 per cent (some utilities use a smaller percentage), reflecting the theoretical 6 per cent which the utility would be permitted to earn on the investment in new plant if operation began simultaneously with construction.

In earlier years of the postwar period comparatively little use was made of the interest credit, but since 1951 the item has enjoyed increasing popularity. But it is a fact that reserve capability has also increased in recent years. The combination of these two trends has resulted in some irregularities in share earnings for individual companies. The following table indicates the postwar record for the privately operated electric utilities:

	Interest Charged to Construction —Credit (Mill.)	Construction Expendi- tures (Mill.)	Reserve Capability
1945	\$ 3	\$ 350	27%
1946	6	650	11
1947	15	1,235	6
1948	28	1,830	7
1949	38	2,190	14
1950	38	2,050	10
1951	35	2,135	12
1952	50	2,599	12
1953	73	2,876	18
1954	70	2,835	22



### *U. S. Population (Millions)*

	Minimum Forecast	Maximum Forecast
1955	165	165
1965	186	193
1975	207	229
Per cent gain 1965 over 1955	13%	17%
" " " 1975 over 1965	11	19
" " " 1975 over 1955	25	39



## FINANCIAL NEWS AND COMMENT

UNFORTUNATELY, the U. S. totals for the "interest charged to construction-credit" become available only when the annual yearbook "Statistics of Electric Utilities" is issued by the FPC, and the 1954 issue has not yet been issued. A spot check of some of the larger utility companies indicates that in 1954 there was probably a moderate decline in the total use of the credit. It is rumored that some utilities have now discontinued use of the device. However, the above figures seem adequate to illustrate our point; *i.e.*, that the increased use of this device (which increases share earnings) came at a time when many companies began to have excess capacity ranging from 15 to 30 per cent, as compared with perhaps 5 to 10 per cent immediately after the war. The result has been that there is now considerable irregularity in earnings as a result of these two trends.

At the present time it is sometimes difficult for a big new generating unit to "earn its keep" (6 per cent on the investment)

immediately. In the first place it may take two or three months in some cases to "get the bugs out" of a big new generator, and have the unit running smoothly at 80 or 90 per cent load factor. Secondly, as noted above, the reserve over peak requirements has probably now increased over past years. Third, the plant normally operates at well below the seasonal peak, which means further excess capacity for a good part of the year. Hence, even though the new unit may be used as much as possible, the gain in earnings may temporarily fall short of meeting the former item "interest charged to construction-credit." Security analysts have become accustomed to hearing managements remark that a dip in share earnings (or their failure to gain at the anticipated rate) is accounted for by a decline in the interest credit.

TED LOCKE of Goodbody & Co. recently prepared "A Comparative Study of the Interest during Construction Credit



### ELECTRIC AND GAS FINANCING IN 1955

	<i>New Money</i>	<i>Not New Money</i>	<i>Total</i>
<i>Electric Companies</i>			
Bonds			
—sold to public .....	\$ 723,080,000	\$ 107,142,000	\$ 830,222,000
—sold privately .....	74,623,000	8,225,000	82,848,000
—offered to stockholders .....	40,951,000		40,951,000
Preferred			
—sold to public .....	149,798,000		149,798,000
—sold privately .....	44,645,000	2,805,000	47,450,000
—offered to stockholders .....	24,307,000	9,781,000	34,088,000
Common			
—sold to public .....	99,392,000	3,030,000	102,422,000
—offered to stockholders .....	252,619,000		252,619,000
	<u>\$1,409,415,000</u>	<u>\$ 130,983,000</u>	<u>\$1,540,398,000</u>
<i>Gas Companies</i>			
Bonds			
—sold to public .....	\$ 220,154,000		\$ 220,154,000
—sold privately .....	327,412,000	\$ 12,579,000	339,991,000
—offered to stockholders .....	5,561,000	1,570,000	7,131,000
Preferred			
—sold to public .....	67,017,000	10,500,000	77,517,000
—sold privately .....	507,000		507,000
—offered to stockholders .....	5,408,000		5,408,000
Common			
—sold to public .....	41,068,000	42,795,000	83,863,000
—offered to stockholders .....	105,281,000		105,281,000
	<u>\$ 772,408,000</u>	<u>\$ 67,444,000</u>	<u>\$ 839,852,000</u>
	<u>\$2,181,823,000</u>	<u>\$ 198,427,000</u>	<u>\$2,380,250,000</u>

*Source, Irving Trust Company.*

# PUBLIC UTILITIES FORTNIGHTLY

for 86 Electric Utility Companies." The table shows the interest credit, the reported share earnings, and the earnings without the interest credit for the three years 1953, 1954, and 1955 (twelve months ended September 30th); also the dividend rate and the pay-out percentage both including and excluding the interest credit.

The following is quoted from the Goodbody study:

In the twelve months ended September 30, 1955, there were ten companies with interest during construction credits

exceeding 10 per cent of reported per share earnings, compared with 20 companies in the calendar year 1954 and 25 in 1953. When this credit reaches or exceeds 10 per cent of per share results careful examination and a close following of reported earnings are necessary as the stock may react due to temporarily lower earnings in the period immediately following a sharp drop in the credit. And a sharp drop may occur when the credit is large as time is required to develop higher earnings in some cases.

## NEW-MONEY OFFERINGS IN DECEMBER, 1955

### Electric Companies

Bonds	—sold to public .....	\$100,234,000
Preferred	—sold to public .....	17,550,000
Common	—sold to public .....	7,713,000
		<hr/>
		\$125,497,000

### Gas Companies

Bonds	—sold to public .....	\$ 2,501,000
	—offered to stockholders .....	3,661,000
	—sold privately .....	29,100,000
Preferred	—sold to public .....	3,304,000
	—offered to stockholders .....	5,408,000
Common	—sold to public .....	
		<hr/>
		\$ 43,974,000
		<hr/>
		\$169,471,000

## DATA ON ELECTRIC UTILITY STOCKS

1954 Rev. (Mill.)		1/25/56 Price About	Div. Rate	Cur- rent Yield	Share Cur. Period	Earnings* % In- crease	12 Mos. Ended	Price- Earnings Ratio	Divi- dend Pay-out	Common Stock Equity
\$230	S Amer. Gas & Elec. ....	49	\$2.00h	4.1%	\$2.93**	18%	Nov.	16.7	68%	32%
35	O Arizona Pub. Serv. ....	22	1.00	4.5	1.27	D5	Nov.	17.3	79	28
9	O Arkansas Mo. Power ....	23	1.24	5.4	1.65	5	Sept.	13.9	75	30
27	S Atlantic City Elec. ....	29	1.20b	4.1	1.52	10	Nov.	19.1	79	27
107	S Baltimore G. & E. ....	34	1.60	4.7	2.06	36	Sept.	16.5	78	40
5	O Bangor Hydro-Elec. ....	32	1.80	5.6	2.11	D11	Sept.	15.2	85	33
5	O Black Hills P. & L. ....	27	1.28	4.7	2.16	7	Oct.	12.5	59	27
86	S Boston Edison ....	57	2.80	4.9	3.12	5	Dec. '54	18.3	90	53
17	A Calif. Elec. Power ....	14	.70	5.0	.93	21	Sept.	15.1	75	35
17	O Calif. Oreg. Power ....	31	1.60	5.2	2.08	17	Nov.	14.9	77	37
7	O Calif.-Pacific Util. ....	29	1.40	4.8	2.15**	1	Nov.	13.5	65	30
54	S Carolina P. & L. ....	24	1.10	4.6	1.70	16	Dec.	14.1	65	32
23	S Cent. Hudson G. & E. ....	16	.76	4.8	1.08	24	Sept.	14.8	70	33
16	O Cent. Ill. E. & G. ....	27	1.20	4.4	2.02	44	Sept.	13.4	59	33
30	S Cent. Ill. Light ....	54	2.60	4.8	3.36	8	Nov.	16.1	77	40
46	S Cent. Ill. P. S. ....	29	1.40	4.8	2.29	26	Sept.	12.7	61	33
10	O Cent. Louisiana Elec. ....	30	1.40	4.7	1.78	27	Sept.	16.9	79	31
30	O Cent. Maine Power ....	24	1.40	5.9	1.80	18	Nov.	13.3	78	32
105	S Cent. & South West ....	34	1.40	4.1	2.00	17	Sept.	17.0	70	36
10	O Cent. Vt. P. S. ....	17	1.00	5.9	1.31	12	Nov.	13.0	76	29
95	S Cincinnati G. & E. ....	27	1.20	4.4	1.79	9	Sept.	15.1	67	38

# FINANCIAL NEWS AND COMMENT

1954 Rev. (Mill.)	(Continued)	1/25/56 Price About	Div. Rate	Cur- rent Yield	Share Cur. Period	Earnings* % In- crease	12 Mos. Ended	Price- Earnings Ratio	Divi- dend Pay-out	Common Stock Equity
6	O Citizens Utils. ....	16	.48h	6.0a	1.08	6	June	14.8	44	40
91	S Cleve. Elec. Illum. ....	35	1.60	4.6	2.29	17	Sept.	15.3	70	42
3	O Colo. Cent. Power ....	27	1.20	4.4	1.58	—	Sept.	17.1	76	39
35	S Columbus & S. O. E. ....	32	1.60	5.0	2.15	15	June	14.9	74	34
310	S Commonwealth Edison ....	42	2.00	4.8	2.82	11	Sept.	14.9	71	49
10	A Community Pub. Serv. ....	23	1.20	5.2	1.78	10	Sept.	12.9	67	49
2	O Concord Electric ....	42	2.40	5.7	2.64	6	Dec. '54	15.9	91	63
60	O Connecticut L. & P. ....	18	.98	5.4	1.12	3	Nov.	16.1	88	38
19	O Connecticut Power ....	43	2.25	5.2	2.92	40	Sept.	14.7	77	41
474	S Consol. Edison ....	48	2.40	5.0	3.06	5	Sept.	15.7	78	43
170	S Consumers Power ....	49	2.20i	4.5	3.16	7	Nov.	15.5	70	42
61	S Dayton P. & L. ....	46	2.20	4.8	3.24	12	Sept.	14.2	68	37
31	S Delaware P. & L. ....	39	1.50	3.8	2.32	9	Dec.	17.3	67	35
196	S Detroit Edison ....	35	1.80	5.1	2.43	18	Dec.	14.4	74	45
113	A Duke Power ....	59	2.40	4.1	3.42	7	Sept.	17.3	70	53
81	S Duquesne Light ....	34	1.80	5.3	2.25	5	Sept.	15.1	80	35
27	O Eastern Util. Assoc. ....	37	2.20	5.9	2.47	13	Nov.	15.0	89	36
2	O Edison Sault Elec. ....	15	.80	5.3	1.18	22	Sept.	12.7	68	49
10	O El Paso Elec. ....	38	1.80	4.7	2.30	D7	Nov.	16.5	78	37
10	S Empire Dist. Elec. ....	29	1.60	5.5	2.05	D3	Sept.	14.1	78	31
4	O Fitchburg G. & E. ....	53	3.00	5.7	3.26	16	Dec. '54	16.3	92	53
38	S Florida Power Corp. ....	43	1.60	3.7	2.15	11	Sept.	20.0	74	33
79	S Florida P. & L. ....	37	1.20	3.2	1.93	27	Sept.	19.2	62	38
163	S General Pub. Util. ....	36	1.80	5.0	2.61	6	Sept.	13.8	69	39
6	O Green Mt. Power ....	30	1.80	6.0	2.33	13	Sept.	12.9	77	39
47	S Gulf States Util. ....	37	1.60	4.3	2.16	14	Nov.	17.1	74	30
20	A Hartford E. L. ....	58	2.75	4.7	3.18	D6	Sept.	18.2	86	47
5	O Haverhill Elec. ....	41	2.15†	5.2	1.95	D35	Dec. '54	21.0	110	100
58	S Houston L. & P. ....	44	1.40	3.2	2.45	10	Nov.	18.0	57	40
7	O Housatonic P. S. ....	24	1.40	5.8	1.58	20	Dec. '54	15.2	89	46
23	S Idaho Power ....	29	1.20	4.1	1.82	3	Sept.	15.9	66	35
70	S Illinois Power ....	54	2.60	4.8	3.34	20	Nov.	16.2	78	35
37	S Indianapolis P. & L. ....	30	1.40	4.7	1.92	20	Sept.	15.6	73	35
18	S Interstate Power ....	14	.74	5.3	1.00	5	Sept.	14.0	74	30
27	O Iowa Elec. L. & P. ....	26	1.30	5.0	1.93	9	Nov.	13.5	67	33
31	S Iowa-Ill. G. & E. ....	34	1.80	5.3	2.24	12	Nov.	15.2	80	40
31	S Iowa Power & Lt. ....	28	1.40	5.0	1.89	10	Sept.	14.8	74	31
27	O Iowa Pub. Service ....	16	.80	5.0	.91	D2	Nov.	17.6	88	33
12	O Iowa Southern Util. ....	22	1.20	5.5	1.63	17	Nov.	13.5	74	35
51	S Kansas City P. & L. ....	39	1.80	4.6	2.35	11	Nov.	16.6	77	32
25	S Kansas G. & E. ....	26	1.20	4.6	1.93	D4	Dec.	13.5	62	26
36	S Kansas Pr. & Lt. ....	22	1.20	5.5	1.58	—	Sept.	13.9	76	26
35	O Kentucky Util. ....	26	1.28	4.9	2.10	13	Sept.	12.4	61	34
6	O Lake Superior D. P. ....	23	1.10	4.8	1.49	5	Sept.	15.4	74	37
5	O Lawrence Elec. ....	30	1.75	5.8	1.40	D25	Dec. '54	21.4	125	63
77	S Long Island Ltg. ....	22	1.00	4.5	1.37**	8	Sept.	16.1	73	32
41	S Louisville G. & E. ....	51	2.00	3.9	3.49	24	Sept.	14.6	57	35
7	O Lowell Elec. Lt. ....	59	3.30†	5.6	3.04	D19	Dec. '54	19.4	109	65
8	O Lynn G. & E. ....	29	1.60	5.5	2.01	D7	Dec. '54	14.4	80	75
7	O Madison G. & E. ....	44	1.60	3.6	3.20	2	Dec. '54	13.8	50	53
3	A Maine Pub. Service ....	18	1.08	6.0	1.22	D10	Nov.	14.8	89	35
4	O Michigan G. & E. ....	43	1.50h	6.5a	3.51	14	Sept.	12.3	43	31
144	S Middle South Util. ....	31	1.50	4.8	2.19	1	Nov.	14.2	68	35
24	S Minnesota P. & L. ....	29	1.40	4.8	2.06	19	Dec.	14.1	68	35
2	O Miss. Valley P. S. ....	30	1.40g	4.7	2.46	3	Dec.	12.2	57	30
10	A Missouri Pub. Ser. ....	13	.60	4.6	.85	D5	Nov.	15.3	71	29
5	O Missouri Util. ....	26	1.36	5.2	1.91	12	Sept.	13.6	71	36
31	S Montana Power ....	40	1.80	4.5	2.95	13	Nov.	13.6	61	34
122	S New England Elec. ....	17	1.00	5.9	1.22	4	Sept.	13.9	82	34
38	O New England G. & E. ....	18	1.00	5.6	1.38**	4	Nov.	13.0	72	35
43	O New Orleans P. S. ....	45	2.25	5.0	2.66	D6	Nov.	16.9	85	39
2	O Newport Electric ....	43	2.00	4.7	2.63	—	Nov.	16.3	76	34
73	S N. Y. State El. & Gas ....	39	2.00	5.1	2.75	16	Nov.	14.2	73	36
210	S Niagara Mohawk Pr. ....	33	1.80	5.5	2.15	5	Oct.	15.3	84	34
68	O Northern Ind. P. S. ....	35	1.80	5.1	2.80	20	Nov.	12.5	64	35
118	S Northern Sts. Power ....	18	.90	5.0	1.16	8	Dec.	15.5	78	33
9	O Northwestern P. S. ....	17	1.00	5.9	1.39	16	Sept.	12.2	65	27

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1954 Rev. (Mill.)	(Continued)	1/25/56 Price About	Div. Rate	Cur- rent Yield	Share Cur. Period	Earnings* % In- crease	12 Mos. Ended	Price- Earnings Ratio	Divi- dend Pay-out	Common Stock Equity
110	S Ohio Edison .....	50	2.48	5.0	3.55	18	Dec.	14.1	70	42
40	S Oklahoma G. & E. ....	36	1.70	4.7	2.34	22	Dec.	15.4	73	30
14	O Otter Tail Power .....	28	1.60	5.7	2.05	3	Nov.	13.7	78	35
386	S Pacific G. & E. ....	49	2.20	4.5	3.22	15	Sept.	15.2	68	39
40	O Pacific P. & L. ....	29	1.48	5.1	1.66	8	Aug.	17.5	89	29
109	S Penn Power & Lt. ....	47	2.40	5.1	3.09	7	Nov.	15.2	78	29
196	S Phila. Elec. ....	39	1.80	4.6	2.30	3	Oct.	17.0	78	39
29	O Portland Gen. Elec. ....	23	1.10	4.8	1.64	17	Oct.	14.0	67	40
52	S Potomac Elec. Power ....	22	1.00	4.5	1.38	24	Nov.	15.9	72	36
63	S Pub. Serv. of Colo. ....	44	1.80	4.1	2.55	18	Sept.	17.3	71	35
250	S Pub. Serv. El. & Gas ....	34	1.80	5.3	2.26	16	Dec.	15.0	80	31
62	S Pub. Serv. of Indiana ....	37	2.00	5.4	2.38	—	Nov.	15.5	84	34
23	O Pub. Serv. of N. H. ....	18	1.00	5.6	1.23	18	Nov.	14.6	81	33
10	O Public Serv. of N. M. ....	14	.68	4.9	.95	13	Sept.	14.7	72	31
21	S Puget Sound P. & L. ....	24	1.20	5.0	1.49	14	Oct.	16.1	81	58
49	S Rochester G. & E. ....	44	2.24	5.1	3.34	7	Sept.	13.2	67	32
14	O Rockland L. & P. ....	18	.70	3.9	.83	36	Dec. '54	21.7	84	29
7	S St. Joseph L. & P. ....	23	1.32	5.7	1.67	—	Sept.	13.8	79	41
39	S San Diego G. & E. ....	19	.80	4.2	1.11	—	Oct.	17.1	72	44
8	O Sierra Pacific Pr. ....	23	1.12	4.9	1.45	20	Nov.	15.9	77	28
154	S So. Calif. Edison ....	50	2.40	4.8	3.17	19	Sept.	15.8	76	36
34	S So. Carolina E. & G. ....	19	.90	4.7	1.33	8	Nov.	14.3	68	28
6	O Southern Colo. Pr. ....	17	.70	4.1	1.22	D2	Nov.	13.9	57	41
194	S Southern Company ....	20	1.00	5.0	1.32	12	Nov.	15.2	76	29
14	S So. Indiana G. & E. ....	30	1.60	5.3	2.21	—	Nov.	13.6	72	34
4	O So. Nevada Power ....	18	1.00	5.6	1.46	D2	Sept.	12.3	68	64
1	O Southern Utah Pr. ....	16	1.00	6.3	.88	1	Oct.	18.2	114	39
3	O Southwestern E. S. ....	20	1.08	5.4	1.63	2	Nov.	12.3	66	31
33	S Southwestern P. S. ....	28	1.32	4.7	1.50	D2	Nov.	18.7	88	30
20	A Tampa Elec. ....	25	1.00	4.0	1.34	13	Nov.	18.7	75	38
117	S Texas Utilities ....	36	1.28	3.6	2.04	6	Nov.	17.6	63	36
35	S Toledo Edison ....	14	.70	5.0	1.08	17	Sept.	13.0	65	30
11	O Tucson G. E. L. & P. ....	30	1.20	4.0	1.72	16	June	17.4	70	40
114	S Union Elec. of Mo. ....	29	1.40	4.8	1.69	5	Sept.	17.2	83	36
28	O United Illuminating ....	51	2.55†	5.0	3.13	8	Dec. '54	16.3	81	51
4	O Upper Peninsula Pr. ....	28	1.50	5.4	2.21	D10	Sept.	12.7	68	31
32	S Utah Power & Lt. ....	51	2.20	4.3	3.06	16	Nov.	16.7	72	41
96	S Virginia E. & P. ....	39	1.60	4.1	2.54	19	Nov.	15.4	63	36
23	S Wash. Water Power ....	37	1.80	4.9	2.11	11	Dec.	17.5	85	35
116	S West Penn Elec. ....	26	1.30	5.0	2.03	10	Nov.	12.8	64	28
64	O West Penn Power ....	51	2.40	4.7	3.22	11	Sept.	15.8	75	33
10	O Western Lt. & Tel. ....	32	1.80	5.6	2.69	40	Oct.	11.9	67	27
22	O Western Mass. Cos. ....	42	2.20	5.2	3.00	6	July	14.0	73	52
88	S Wisc. El. Pr. (Cons.) ....	34	1.60	4.7	2.42	12	Sept.	14.0	66	39
35	O Wisconsin P. & L. ....	27	1.28	4.7	1.71	14	Sept.	15.8	75	32
31	S Wisconsin Pub. Serv. ....	23	1.20	5.2	1.69	14	Oct.	13.6	71	34
Averages .....				4.9%				15.3	74%	
Foreign Companies										
186	S American & Foreign Pr. ..	14	\$ .75e	5.4%	\$1.72	D28%	Sept.	8.1	44%	48%
137	A Brazilian Trac. L. & P. ....	7	—	—	1.26	D6	Dec. '54	5.6	—	70
59	A British Columbia Pr. ....	37	1.20	3.2	1.62	16	Dec. '54	22.8	62	28
16	A Gatineau Power ....	31	1.20	3.9	1.99	12	Dec. '54	15.6	60	30
10	A Quebec Power ....	28	1.20	4.3	1.56	20	Dec. '54	17.9	77	44
45	A Shawinigan Water & Pr. ..	69	1.80	2.6	2.84	25	Dec. '54	24.3	63	35

B—Boston Exchange. A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. \*If additional common shares have been recently offered, earnings are adjusted to give effect to the offering. Percentage change is in the net income available for common stock. \*\*Based on average number of shares. a—Also regular annual 3 per cent stock dividend, which is included in the yield. b—Also 5 per cent stock dividend. c—Also 3/10 share of Northern Illinois Gas for each share of Commonwealth Edison. e—Includes 15 cents extra. g—Also 10 per cent stock dividend January 31, 1955. h—Also 2 per cent stock dividend. i—Also 5 per cent stock dividend. †Estimated. #Also occasional stock dividend.



## What Others Think

### Advantages and Disadvantages of Various Depreciation Methods

THE fundamental concept of tax depreciation permitting recovery of the investment in depreciable property over its useful life has been retained in the Internal Revenue Code, § 167, by the general rule, "There shall be allowed as depreciation deduction a reasonable allowance for the exhaustion, wear, and tear . . ." of property used in the trade or business. Such concept expressed by the general rule applies in measuring depreciation by straight-line, declining balance, sum of the years-digits, or by any other method used to measure tax depreciation.

A taxpayer dilemma was created by the new rules in IRC, § 167 (b), "Use of Certain Methods and Rates," which liberalized depreciation allowances under the declining balance method and the sum of the years-digits method. In light of this dilemma, a paper presented at the fourteenth annual Institute of Federal Taxation at New York University last year, entitled "Advantages and Disadvantages of Various Depreciation Methods," by R. M. Dodds will doubtless be of interest to utility companies and their regulators. Mr. Dodds is manager of the tax department of Ebasco Services Incorporated and past chairman of the taxation accounting committees of the American Gas Association and Edison Electric Institute and the fed-

eral tax committee of the Tax Executives Institute.

It should be noted at the outset that the remarks of Mr. Dodds appertain solely to the liberalized depreciation features contained in the Internal Revenue Code of 1954. As such, they are not concerned with a separate and distinct program of the Office of Defense Mobilization, administered under § 168 of the act, under which utilities, among other *defense-related industries*, have been eligible for grants of 5-year rapid tax amortization certificates to speed construction of emergency facilities.

MR. DODDS sets the scene for his discussion with the statement that probably the majority of corporate taxpayers filed 1954 returns without making a choice to deduct liberalized depreciation and without reaching a firm decision subsequently. Generally this majority is continuing with straight-line depreciation. Such a decision will not be difficult, Mr. Dodds says, where depreciable property is a negligible factor in the taxpayer's business. Similarly, a decision will not be difficult where the property accounts have become static and with negligible prospects of replacements being made to existing property. The facts applicable to



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specific instances and the policy of management will in many cases dictate continuance of the straight-line method of depreciation, Mr. Dodds points out.

But he adds:

A decision about using liberalized depreciation becomes much more critical if the taxpayer faces the prospect of growth requiring the addition of material amounts of depreciable property such as may occur under the expectancy of our population growing from the present 165,000,000 to an estimated 221,000,000 people in 1975.

In certain cases of growth the cash generated from increased depreciation deductions to finance property additions may cause liberalized depreciation to be considered seriously as a matter of necessity. In this connection I am informed one lending institution has designed a "Pay as You Depreciate Plan," which is geared to the sum of the years-digits method for payments of instalments for financing acquisition of equipment.

Serious study and consideration should be accorded the liberalized depreciation methods where the two outstanding and minimum sets of facts shown hereunder obtain:

(a) Substantial replacements or expansion of plant and facilities eligible for liberalized depreciation methods which will require financing from earnings and/or issuance of debt or equity capital,

(b) Substantial obsolescence may occur in the later years of service life of property.

**I**N Dodds' opinion with either or both of such facts present the corporate taxpayer should undertake a long-range depreciation study, which will embrace the entire amount of estimated gross property

addition, retirements, and replacements over a normal span of property life, by comparing depreciation calculated preferably on a composite depreciation basis under straight-line, declining balance, and sum of the years-digits methods, in order to measure the annual excess of the liberalized methods over straight line. (The calculations measured on a composite depreciation method are suggested to minimize the number of schedules to be employed for comparative purposes and to simplify as much as possible the work involved. Measuring a composite rate is explained below under straight-line depreciation methods and in § 3 under composite depreciation accounting.)

**M**R. DODDS has found that in many cases it is because of economic growth that the liberalized methods will produce a material excess of deductions over straight line during the entire life span of the property. When the significance of such an excess has been established it will be possible to ascertain approximately how much of new capital requirements may be realized from the liberalized methods and approximately how much new capital will be required from new financing in the form of debt or equity capital.

He cautions that the long-range depreciation study he is suggesting should be distinguished from trying to satisfy the matter by comparing depreciation on straight-line, declining balance, and sum of the years-digits methods measured by a single unit of property where it can be shown that higher annual deductions in the early life will be followed by reduced deductions in later years. Such a result affords an inconclusive answer, Mr. Dodds maintains, because in cases of growth the annual liberalized depreciation deductions on a long-range basis will constantly remain higher than straight line.

## WHAT OTHERS THINK

DODDS listed advantages and disadvantages of various straight-line depreciation methods as follows:

### *Straight-line Depreciation Methods:*

1. Units or items of property may be depreciated separately for each item according to the proposed regulations. Salvage may be a factor and the estimated remaining useful life of property may be subject to modification by reason of conditions known to exist at the end of each taxable year.

### *Advantages (Unit or Item Accounting)*

(a) Adaptable to certain machine accounting methods.

(b) Simplicity and ease under which rate or life revision can be applied to separate items of property but highly susceptible to rate changes by comparing age and accrued depreciation by items.

### *Disadvantages (Unit or Item Accounting)*

(a) Costly accounting if applied generally to property comprised of a large number and variety of units or kinds of property.

(b) Unrealistic method if obsolescence becomes a potent factor.

(c) Necessary to flag and remove long-lived assets from depreciable schedules as they become fully depreciated.

2. Classified groups of property (a variation of composite accounting) may be depreciated by including a number of assets with same or different useful lives in one account and applying a single group rate for the entire account.

If depreciation is computed on more than one item and the rates are based on average lives of the assets, losses claimed on the normal retirement of any such assets are not allowable.

### *Advantages (Classified Groups of Property)*

(a) Curtails accounting work as compared with calculations under separate units of property where manual calculations are made.

(b) Permits grouping of assets similar in kind with approximately same mortality experience.

### *Disadvantages (Classified Groups of Property)*

(a) Highly susceptible to downward rate change in a given group if ratio of reserve to grouped assets becomes high due to assets being static in character.

(b) Losses on normal retirements not recognized but chargeable to reserve. Presumably vintage accounting would be required (*i.e.*, classify depreciable property to yearly investments), which is costly accounting, in order to deduct an unrecovered balance at the time of last retirement where depreciation accounts are maintained by year of acquisition. In the absence of vintage accounting normal retirements of property apparently produce no gain or loss. Presumably, an abandonment of a unit of property, resulting in a premature retirement, would be depreciated at the group rate with a loss therefrom deductible from ordinary income.

IN § 3 of his paper, Mr. Dodds notes that composite depreciation accounting is recognized in Proposed Regulation, § 1.167 (a)-(7) (a), which provides that "... A broader grouping, where assets are included in the same account regardless of their character or useful lives, is commonly referred to as a composite account. For example, in an extreme case a taxpayer might be permitted to combine all assets used in his business in a single account. Group, classified, or composite

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accounts may be further broken down on the basis of location, dates of acquisition, cost, character, use, etc."

Mr. Dodds also states that Proposed Regulation, § 1.167 (b)-1 (b) (Example (2)), sets forth a very simple but significant explanation and example as to the determination of a composite rate:

In the case of classified or composite accounts, the classified or composite rate is generally computed by determining the amount of one year's depreciation for each item or each group of similar items, and by dividing the total depreciation thus obtained by the total cost or other basis of the assets. The average rate so obtained is to be used as long as subsequent additions, retirements, or replacements do not substantially alter the relative proportions of different types of assets in the account. An example of the computation of a classified or composite rate follows:

<i>Cost or Other Basis</i>	<i>Estimated Useful Life Years</i>	<i>Annual Depreciation</i>
\$10,000	5	\$2,000
10,000	15	667
<hr/> \$20,000		<hr/> \$2,667

Average rate is 13.33 per cent ( $\$2,667 \div \$20,000$ ) unadjusted for salvage. Assuming the estimated salvage value is 10 per cent of the cost or other basis, the rate adjusted for salvage will be 13.33 per cent minus 10 per cent of 13.33 per cent (13.33 per cent minus 1.33 per cent), or 12 per cent.

**I**N the view of Mr. Dodds, in many cases, particularly with long-lived property, the cost of removing property from service may approximate the salvage from the retired property with no realization of net salvage. Therefore, the composite depreciation rate used in computing annual depreciation allowances will be designed to recover the investment in depreciable

property, plus removal costs, reduced by salvage, he explains. The removal costs and salvage are applied directly to the reserve for depreciation. Hence, he remarks, such amounts are not taken into consideration in determining taxable income. He adds that the property retired, similarly, is charged to the reserve for depreciation without giving recognition to gain or loss if it is a normal retirement of property as distinguished from an abandonment of property or a sale of property.

Composite depreciation accounting contemplates that different types of property have an average life span, some of which will outlive the life span while other property of identical structure and use will be retired from service before reaching the average life span, the author goes on. Such retirements of property are considered normal retirements for which no recognition is given as to gain or loss. Mr. Dodds believes it will be recognized from the foregoing that the composite depreciable base is prematurely reduced by property retirements which fall short of their life span. In compensation for such premature retirements the depreciable base is not adjusted or reduced for the property which outlives its normal life span.

**M**R. DODDS has found that generally three kinds of property retirements (other than normal retirements) occasion recognition of gain or loss under composite depreciation accounting. These are:

(1) Loss or abandonment of units of property retired from service before normal life expectancy where the usefulness of assets is suddenly terminated and the property is discarded permanently. Generally some overt act indicates abandonment and the loss should be claimed in the year in which the property is in fact abandoned as distinguished from physical retirement of property.

## WHAT OTHERS THINK

(2) Gain or loss arising from involuntary conversions of property as a result of destruction in whole or in part or an exercise of the power of requisition or condemnation.

(3) Gain or loss under a bona fide sale to a purchaser who has the intention of using the property for productive purposes as distinguished from disposition of property for scrap value.

Mr. Dodds points out that generally the composite rate of depreciation may not be used in computing accrued depreciation on such property requirements in measuring gain or loss. It is necessary, he says, to measure such accrued depreciation at a rate corresponding to the life of the individual item of property in the same fashion as under item accounting.

At this point, the Ebasco official presents his analytical list of advantages and disadvantages of composite depreciation accounting:

### *Advantages (Composite Depreciation Accounting)*

(a) Preferable in many cases to unit and group depreciation accounting, particularly regarding long-lived property, by reason of:

- (1) All-around simplicity.
- (2) Rates less apt to be disturbed than under item or group accounting.
- (3) Rate revision easily accomplished.
- (4) Savings in time and expense by eliminating many calculations of schedules, asset history data, and particularly elimination of separate reserves as to units or groups of assets.
- (5) Highly desirable method where property is retired from one location and placed

in service at another location causing difficulty as to original identification.

- (6) Permits postponement of net gains on normal retirements of property.

### *Disadvantages (Composite Depreciation Accounting)*

(a) Composition or classification of property must be watched for pronounced changes in relative proportions of short- versus long-lived assets which would cause change in composite rate.

(b) Substantial shortening of life of a particular classification of property in composite group may require amortization treatment with approval of Internal Revenue Service.

(c) Deductions not obtainable for net loss on normal retirements of property.

PRESUMABLY the unit of production method falls within the general rule of IRC, § 167 and § 1.167(b)-0(b) of the proposed regulations as a method previously found adequate to produce a reasonable allowance if used consistently by the taxpayer. Mr. Dodds adds a word of caution, however, stating that if this method is used for the first time, then presumably it might come within the limitations of § 167(b)(4), which may be in conflict with the unit of production theory of recovery.

In further explanation, he says that the unit of production method is particularly adaptable for depreciating property used in natural resources industries. The allowance for depreciation is measured by the relationship of units produced during the year to total recoverable reserves at the beginning of the year regardless of physical life.

At this point, the Ebasco official turns to some preliminary considerations to be

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taken up in connection with liberalized depreciation methods. Property eligible for liberalized depreciation methods, for example, is restricted by IRC, § 167 (c), to property (other than tangible property) with a useful life of three years or more—

(1) the construction, reconstruction, or erection of which is completed after 1953 and with respect only to the post-1953 portion thereof, or (2) property which is acquired after 1953 if the original use of the property commences with the taxpayer and commences after such date. Thus, he states, reconstruction costs or capital additions incurred after 1953 with respect to property acquired prior to 1954 are eligible for liberalized depreciation even though the original property may be subjected only to straight line. Similarly, materials on hand prior to 1954 used in such post-1953 reconstruction or capital additions are eligible for liberalized depreciation.

**I**N the view of Mr. Dodds, the adequacy of property records or the lack of certain specific information about property may dictate to what extent liberalized depreciation methods may be employed, and, if so, whether by individual items, by groups, or by composite accounting. If the property is divided into yearly investments (vintage accounting) an additional deduction may be obtained under declining balance when the last vintage asset is retired.

But once again Mr. Dodds adds a cautionary note, remarking that the presence of one very long-lived asset in each vintage could indefinitely delay obtaining the deduction and raises the corollary question as to whether the result warrants the additional expense of vintage accounting. Mr. Dodds explains that it is necessary for unit or vintage accounting that retirements of property be identifiable as to year

of construction or acquisition. In the case of composite accounting, it is necessary to at least be able to identify retirements of property with respect to such property acquired prior to and subsequent to December 31, 1953.

**A**NOTHER factor which Mr. Dodds feels is important in weighing which method of depreciation is to be used is that of salvage. He states:

Salvage is mentioned frequently in the proposed regulations on depreciation and particularly in relation to a "reasonable allowance." Here the regulations state: "The allowance is that amount which should be set aside for the taxable year . . . so that the aggregate of the amounts set aside, plus the salvage value, will, at the end of the estimated useful life . . . equal the cost or other basis of the property . . ." Experience with existing property may be used as a guide in estimating salvage, less removal costs, to determine the estimated net salvage. If new property being constructed or installed is different in character or if maintenance policies are going to be different, then the estimates become more complicated.

The proposed regulations, published November 11, 1955, indicate that under the declining balance method depreciation is calculated without regard to salvage value but an asset shall not be depreciated below a reasonable salvage value. If a change is made from declining balance to straight line, however, estimated salvage and a realistic estimate of remaining useful life would require consideration in measuring the remaining depreciation. Salvage is also mentioned in § 1.167(b)-3(a)(1) of the proposed regulations as a factor in measuring depreciation by the sum of the years-digits method.



## WHAT OTHERS THINK



"VERY WELL, WE'LL LEAVE THESE SAME LETTERS IN THE LITTLE HOLES—  
FOR THE TIME BEING."

**S**TILL another "vital factor," mentioned by Mr. Dodds, in the determination of liberalized depreciation deductions, is the estimated useful life of property. The word "reasonable," which he suggests is wisely used for administrative purposes in the proposed regulation relative to depreciation, recognizes from past experience that the amount of exhaustion, wear, and tear (including a reasonable allowance for obsolescence) in a given period of time is not readily susceptible of ascertainment. But Mr. Dodds feels that the old bulletin "F" described probable useful life very ably with the following language:

Past experience, which is a matter of fact and not of opinion, coupled with

informed opinion as to the present condition of the property, and current developments within the industry and the particular trade or business, furnish a reliable guide for the determination of the useful life of the property. Such a determination should reflect all the peculiar circumstances of the use or operation of the property, such as the purpose for which it is utilized, the conditions under which it is used or operated, the policy as to repairs, renewals, and improvements, and the climatic and other local conditions.

A further point of interest, according to the Ebasco tax expert, is that it is per-

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missible to use different methods of liberalized depreciation for different classes or items of property constructed or acquired in the same year and different methods for the same kind of property in different years. For instance, the taxpayer may elect different methods in a single year applicable to different plant accounts and similarly elect to use different methods in successive years for the same kind of new plants, but, generally, continuity of the different elections must be maintained.

MR. DODDS then turns to an analysis of the declining balance method of depreciation. This method, he says, provides for the calculation of annual depreciation deductions by applying a rate up to but not exceeding twice the corresponding normal straight-line depreciation rate to the declining balance; that is, cost less previously accumulated depreciation (without regard to salvage). This method results in double the straight-line depreciation for the first year only and progressively declining allowances in subsequent years.

The failure fully to depreciate assets at the end of their normal lives is a defect of the declining balance method, in Mr. Dodds' opinion. However, the rules follow a logical sequence by permitting a change, without consent of the commissioner, from the declining balance method to straight-line method at any time during the life of the property in the absence of an agreement under IRC, § 167 (d), which contains a provision prohibiting such a change. In order to obtain a full recovery of the cost of property with negligible salvage under the declining balance method, a switch to the straight-line method may be made in approximately

the second year after the half-life, which is shown in the table below.

MR. DODDS goes on to point out that the mechanics employed in measuring declining balance depreciation are clearly set forth in the proposed regulation relative to the use of the declining balance method for a single asset, classified, group, or composite accounts. He then evaluates the declining balance method as follows:

### *Advantages (Declining Balance Method)*

(a) Right to change from declining balance to straight line without prior consent of the commissioner is an expeditious choice where policy (other than tax policy) may dictate such a change of methods. Otherwise the declining balance method with right to change should not be chosen solely on the basis of such a right because sum of the years digits may be more beneficial particularly in the case of property having negligible salvage or no salvage.

(b) Salvage is ignored in computing declining balance method depreciation which may result in greater deductions under declining balance than under other methods if salvage approximates the undepreciated basis at end of estimated useful life of property.

(c) Declining balance method found adaptable to machine accounting and selected by one known taxpayer for this feature.

(d) Particular merit to declining balance where property may be subject to substantial obsolescence in later years of service life when maintenance may

Assumed Life .....	10	15	20	25	30	35	40
Year of Change ....	7	9	12	14	17	19	22
St. L. % .....	6.55	4.55	3.49	2.82	2.37	2.04	1.79

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be higher in the later years than in earlier years and where estimated salvage is sufficiently high to cause declining balance to be more advantageous than sum of the years digits.

(e) Rate revision easily accomplished if life estimates of remaining property change due to mortality dispersion.

### *Disadvantages (Declining Balance Method)*

(a) Defect in declining balance method is the failure of method to fully depreciate the investment in property. If salvage is negligible factor the sum of the years-digits method may be more favorable since it would permit full recovery of investment in property.

(b) Change from declining balance to straight line to complete depreciation of property necessitates statistical presentation of detailed record of remaining property by years of acquisition and remaining useful life. Thus, the administrative costs may be higher than under other methods.

As to the sum of the years-digits method, Mr. Dodds states that the proposed regulations on depreciation set forth two methods of computation applicable to depreciation of a single asset and one method applicable to group, classified, or composite accounts. In the case of a single asset the proposed regulation illustrates the computation by an example designated as the general rule.

In this case the annual allowance for depreciation under the sum of the years-digits method is computed by applying a changing fraction to the cost of property reduced by estimated salvage, Mr. Dodds explains. The denominator of the fraction is the sum of the numbers representing the successive 12-month periods in the estimated life of the property. The numerator consists of the number of the 12-month

periods, including the year for which the allowance is being computed, remaining in the estimated useful life of the property. However, where a change in the useful life is justified, subsequent computation shall be made as though the remaining useful life at the beginning of the taxable year of change was the useful life of a new asset.

The second method applicable to a single asset, Mr. Dodds continues, is the remaining life method, whereby depreciation is determined by applying a changing rate to the unrecovered cost of the asset. He says it should be noted that under the general rule the basis for depreciation is the full cost of the asset, whereas under the remaining life method the basis is the unrecovered cost. The rate of depreciation can be determined either from observation of the remaining life and use of Table I (set forth in the proposed regulations) to convert the remaining life to its decimal equivalent, or by the computation each year of a fraction, the numerator of which is the estimated remaining life of the asset and the denominator is the summation of the digits corresponding to the years of estimated remaining useful life of the asset.

With group, classified, or composite accounts, according to the Ebasco official, the remaining life method appears to be the most practical way of applying the sum of the years-digits method. The remaining life is readily determined arithmetically by using a fraction, the numerator of which is the unrecovered cost of the account, as computed by the straight-line method, and the denominator of which is the gross cost, and then multiplying the result by the average service life of the assets in the account.

As Mr. Dodds evaluates the remaining life formula, it has the following advantages:

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1. It can be applied to either composite or group property.

2. There is no need to keep records by year of acquisition, other than to identify installations subsequent to December 31, 1953. The formula can be applied to a changing plant balance. In other words, a separate computation is not required for each year's additions. However, it should be borne in mind that even though records are not required by year of installation, it is necessary to segregate retirements of property between that installed prior and subsequent to January 1, 1954.

3. No assumption is required as to the type of dispersion of retirements. This refers to mortality characteristics of mass property. The method inherently takes care of dispersion as it actually occurs.

4. It is flexible since life estimates and salvage estimates can be readily adjusted as found necessary.

5. Depreciation accruals will continue until the last survivor is retired.

6. It is impossible to accrue more than 100 per cent depreciation on plant, even if the life estimate is in error.

**I**N comparing the sum of the years-digits and declining balance methods, Mr. Dodds arrives at the following conclusions:

### *Advantages (Sum of the Years-digits versus Declining Balance Method)*

(a) Sum of the years-digits method fully depreciates property at end of service life without necessity of changing to straight line.

(b) Sum of the years digits produces less depreciation in the first year, about the same accumulation in the first three years, but greater accumulations in all subsequent years than declining balance.

(c) Sum of the years digits and declining balance results should be compared where estimated salvage is greater

than nominal in amount. If salvage is a negligible factor, the sum of the years digits may be more beneficial. On the other hand if the prospects for salvage point to a material recovery, declining balance may be more beneficial as pointed out under advantages of declining balance method.

### *Disadvantages (Sum of the Years-digits versus Declining Balance Method)*

(a) IRC, § 167, contains no provision for changing from sum of the years digits to straight line, therefore, sum of the years digits is less flexible than declining balance in this respect. A change from sum of the years digits to straight line, according to § 1.167(e)-1(a) of the proposed regulations is a change in method of accounting requiring the consent of the commissioner.

**I**F liberalized depreciation is to be taken for tax purposes, another question arises, according to Mr. Dodds. Should depreciation, as so calculated, be the depreciation recorded in the books of account?

The nonutility segment of industry with adequate earnings, particularly those having properties highly susceptible to obsolescence, may lean toward recording liberalized depreciation for tax purposes on the books of accounts, Mr. Dodds feels. But if a serious distortion of earnings would result, policy may dictate that a comparison of depreciation on straight-line and the liberalized method or methods be made for notations on financial statements and information to shareholders.

Mr. Dodds suggests, however, that other segments of industry, particularly those operating under regulatory authorities, have different problems relative to liberalized depreciation for tax purposes which may be influenced for instance by rate-

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making considerations. Due to low turnover and low rate of return, the reduction in earnings by recording liberalized depreciation in the books of account may cause a serious distortion of earnings which may be adverse for regulatory purposes as well as financing growth. In such cases, he remarks, two records of depreciation (one for accounting purposes and one for tax purposes) will be required.

Another interesting aspect of these problems is the definite trend, noted by Mr. Dodds, toward state recognition of liberalized depreciation as computed for federal income tax purposes either under existing statutes or by amending statutes. A cursory review of state tax services relative to 16 states indicates that 11 have given recognition to liberalized depreciation after 1953; one after 1954; that three apparently do not allow it through lack of appropriate provisions; and one has the matter under consideration. This matter of recognition by states is another factor for consideration when weighing liberalized depreciation methods, according to Mr. Dodds, because the existing means of measuring depreciation may have to be continued in certain instances for state income taxes and franchise taxes measured by net income.

MR. DODDS then brings up another point. Taxpayers, he says, should give consideration to the accounting concept of earned surplus as distinguished from the tax concept of earnings and profits, particularly where tax depreciation

and amortization of emergency facilities claimed in income tax returns are considerably in excess of depreciation and amortization recorded in the books of account. The excess of such tax deductions over book deductions results in a lower annual accretion to earnings and profits for tax purposes than earnings reported on a book basis. Since dividends are declared with reference to book earnings, it may happen that the dividends paid may be greater than the amount of annual accretion to earnings and profits for tax purposes, the writer declares.

DIVIDENDS paid when there are earnings and profits for tax purposes are taxable, but dividends paid when there are no such earnings and profits are nontaxable in whole or in part and constitute distributions not out of earnings or profits (capital distributions for tax purposes). Such capital distributions are not taxed as ordinary income, Mr. Dodds continues, but instead reduce the cost basis of the shareholder's stock in case of a subsequent sale thereof. In case the stock is not sold, after the cost basis has been reduced to zero by such nontaxable dividends, any additional nontaxable dividends must be reported as a capital gain and are taxed at the capital gain rate.

Thus, Mr. Dodds concludes, the tax concept of distributions not out of earnings and profits clearly points to at least the moral need, if not legal responsibility, of the corporation informing its shareholders about such distributions.

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## Atomic Industry in a Security Prison?

THE Atomic Energy Commission has a yearly date with the Joint Congressional Committee on Atomic Energy to take up atomic energy matters in public session. The Atomic Energy Law of 1954

requires an annual review of developments in the field, including those pertaining to industrial applications.

This year, the AEC is expected to face some criticism, perhaps more than it is



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accustomed to, from members of the committee.

One tack that this critical reaction is likely to take is to be seen in bold outlines in a speech recently made by the chairman of the committee, Senator Anderson (Democrat, New Mexico), before the Nuclear Science and Engineering Congress in Cleveland. The following are excerpts from that speech:

Since the Atomic Energy Commission is the only agency in this country which is in the atomic energy business in any really significant way, it alone could give me, if I were a businessman, the clues I need for (1) entering some phase of the atomic energy industry, (2) the possible rewards of such a step, and (3) the know-how with which to proceed.

So let's picture me as an absolute newcomer to the field, approaching the Atomic Energy Commission with my question. Let's listen in while AEC refers me to the thousands of words of unclassified information already available. This approach may strike me as unusual since to get an answer from the Commerce Department I do not have to read about every business in the land.

But, let's further imagine me reading everything about atomic energy that I can find and eventually coming to the conclusion that atomic energy offers a great many challenges and financial incentives to an alert industrialist. For example, I discover that there are several possibilities for generating electric power. I see tremendous possibilities in the field of radio-sterilization of meat and vegetable products. I glimpse what appear to be other fabulous opportunities in medicine, agriculture, metal fabrication, and mining.

After reading through all this information, I decide that I will attempt to

learn the possibilities for my firm to produce atomic power reactors. Again I go to the Atomic Energy Commission and say, "I've read everything given me about reactors but I need to know more. I must have figures dealing with costs, various operating excesses, availability of supplies, and so on. Can you give them to me?"

The answer at that point would be, "Sorry, but details such as you ask are confidential restricted data. You can receive this information only if you have a clearance and have been granted an access permit."

SENATOR Anderson said that his next question, delivered in a surprised manner, would likely be: "An access permit? What's that? How do I go about getting clearance and obtaining an access permit?" He will be told that he has to be checked personally to see if he has committed any crimes or other indiscretions of importance before he can receive an "L" clearance, and get an access permit for confidential data and a "Q" clearance for secret information.

"What about the other members of my company?" the businessman might ask. "Will they too have to be cleared?" The AEC's answer will be in the affirmative. How much will this cost? The AEC replies that it can cost as much as \$265 for each "Q" clearance.

The Senator from New Mexico adds:

The way is open, yes, but the road is long and sometimes difficult. An applicant starting as I have imagined myself starting to learn all about nuclear energy is in the position of a rich man trying to enter the Kingdom of Heaven—it is easier for a camel to pass through the eye of a needle than it is for a businessman to receive frank and complete

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and unfettered answers from the Atomic Energy Commission.

If the businessman is stubborn, and the one imagined by Senator Anderson is, then he goes back to the AEC information counter determined not to be held off with the secrecy routine. But the AEC response follows the same pattern.

**W**HAT happens when the businessman attempts to go abroad to sell his wares? As Senator Anderson describes what might be the experience and comments upon it:

... I find that I've been so busy reading up on the subject, so busy getting clearances and access permits, that I've overlooked the fact that a lot of other people are already in the atomic energy business. France is in it. So are Great Britain, Russia, Italy, and West Germany. Everybody's getting into the act.

Furthermore, they've come up with some ideas I did not find in my AEC reference library. This startles me a little. I had come to believe that America knew it all. The French have their processes and they are only too glad to tell me about them—and sell my customers ahead of me. This gives me another jolt. The French don't require access permits and clearances, partnership or licenses.

**I**N the opinion of the chairman of the Joint Atomic Energy Committee, such security procedures are of questionable value. He passes over the legitimate query as to whether such confidential information is worth guarding to make a more important point: Does this whole complicated system of clearances keep information out of the hands of our enemies? Senator Anderson replies: "No, of course

it doesn't." A foreign spy would not necessarily have a police record showing him to be a bad risk. To the Senator, the access permit program is an example of supposed security which is not security at all. To him, this program can prove to be a stumbling block placed in the way of American industry—one more form to fill out, one more additional delay before a businessman can determine whether or not he wants to go into atomic energy.

**I**T is common knowledge today that it is theoretically possible to generate useful power from the light elements, and the idea of taming the H-bomb and using hydrogen energy for constructive purposes, and the success of that idea would rank as one of the great discoveries of all times.

But can it be done? the Senator asks. No one knows. To this, the Senator adds the following:

Can it be done? The scientists do not know—and I certainly do not know. But one thing I think I do know. The job of seeing whether hydrogen energy can be controlled is an immense job. It may eventually require the work of thousands of people, and the task may extend over decades. Even so, success is neither assured—nor even probable.

This is a field where we badly need new ideas. The surest way to keep from getting such ideas, in my opinion, is by posting a "Keep Out" sign.

**I**T is the frevent hope of the chairman of the Joint Congressional Committee on Atomic Energy that the new atomic industry in America will soon be given a chance to try its wings in free air, as Britain, Belgium, France, and Germany now seem to be doing.



## The March of Events

### New York Gets AEC Permit

**T**HE Atomic Energy Commission has agreed to turn over restricted data on nuclear material to New York state for commercial purposes, it was announced recently.

Commerce Commissioner Edward T. Dickinson said the AEC agreed to give the state an access permit involving civilian use of atomic energy. Thus, New York becomes the first state to have one of its agencies receive restricted material "with the intention of applying it for purposes other than development of electric power," the commissioner said.

### FPC Extends Filing Date

**T**HE Federal Power Commission recently extended from April 15th to May 1st the date on which electric power systems must file statement forms.

The forms are required of operators of both publicly and privately owned facilities. They provide the FPC with information concerning operations of the electric firms.

### NARUC Regional Group Organized

**R**EPRESENTATIVES from a group of state commissions in the Midwest met in St. Paul, Minnesota, last month and officially organized a regional group to be known as the Midwest Association of Railroad and Utilities Commissioners.

The following state commissions were represented at the meeting: Iowa, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin. The group decided to hold a conference at Omaha, Nebraska, on May 24 and 25, 1956. The following topics were selected for discussion at the conference: "The Pros and Cons of the Week's Report," "Factors Determining a Rate Base," "The Boxcar Situation as It Applies to the Midwest," "Where Interstate Commerce Begins and Where Intrastate Commerce Ends," "Hearing Procedure in Intrastate Matters," and "Present and Future Developments in Telephone Communications."

Paul A. Rasmussen of Minnesota is president of the Midwest group.

## California

### Flood Damage Cut by Local Dams

**L**OCALLY owned reservoirs caught and held 1,140,000 acre-feet of Decem-

ber flood water, Pacific Gas and Electric Company recently wrote Congressman Engle (Democrat, California). The water caught behind these dams reduced

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flood crests in several critical areas. The company cited the Feather river as an example, pointing out that PG&E reservoirs in the watershed stored 140,000 acre-feet of flood water during the storms. This storage, the company reported, reduced the river's peak flow by more than 10 per cent, which helped to save Oroville and Marysville and averted additional devastation in Yuba City. PG&E's Executive Vice President Robert H. Gerdes wrote the letter to Chairman Engle of the House Interior Affairs Committee, in connection with the current survey Engle is making of the flood damage.

Reports recently compiled show that PG&E's 57 water storage power reser-

voirs captured 470,000 acre-feet of flood water during the storms, Gerdes said, and that 670,000 acre-feet were caught behind dams of irrigation districts, the city and county of San Francisco, and the Southern California Edison Company, which has hydroelectric facilities on the San Joaquin river. "Storage in these reservoirs, built for water and power supply, is normally low in the winter," he said. "Consequently they captured this total of 1,140,000 acre-feet of water of all the flood water stored during the December storms. The remainder was caught by reservoirs built by the Army Engineers of USBR for flood-control and other purposes."

## Illinois

### Urges TVA Power for Southern Illinois

**R**EPRESENTATIVE Paul Powell (Democrat, Vienna) last month called for diversion of Tennessee Valley Authority power into southern Illinois counties as a means of attracting industry and thus remedying the unemployment situation in that part of the state.

Powell made public a letter he had sent U. S. Senator Douglas (Democrat, Illinois), who was scheduled to open hearings in southern Illinois on the Senator's proposal for "distressed area" legislation

which would provide federal grants and loans to aid areas which are rated in poor economic condition.

In his letter Powell said that Cairo recently lost location of a proposed "large industry" because of lack of sufficient power. Many persons in southern Illinois, he said, had been of the opinion that the construction of the huge electrical power plant at Joppa would insure cheap power for industry in Illinois. Instead, he said, all that power is going to the Atomic Energy Commission. The plant was constructed for that purpose.

## Massachusetts

### Seek Revenue Bond Powers

**E**NACTMENT of state legislation to allow municipal utilities to issue revenue instead of general obligation bonds was advocated by Senator Donahue (Democrat, Holyoke), at a hearing conducted last month by the state legislative committee on municipal finance. He said the

measure would permit Holyoke to expand its gas and electric plant "without burdening the taxpayers."

"As time goes on and bonded indebtedness rises," he said, "the legislature should see the need for a law to permit expansion of plant equipment to meet demand."

Opposition to the proposed legislation was expressed by the representative of the

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Massachusetts Federation of Taxpayers Associations, who said so drastic a change in the law was not needed. He said in other states debt limits are far more unrealistic, or referenda on the bond issues are always required. The cost of revenue bonds, he said, is often twice as high.

A spokesman for the Holyoke Electric Department asserted that Massachusetts is far behind in "modernizing its bond financing structure." He told the committee that revenue bond financing would mean "no burden on the taxpayers and no increase in the municipal debt."

## Mississippi

### New Utility Legislation Proposed

**B**ROADENED and more effective regulation of public utilities was urged by Governor Coleman in his inaugural message to the state legislature last month.

"In October, 1954," he said, "I became the first of the candidates for governor to advocate effective state regulation of all public utilities, including electric power companies, natural gas companies, and telephone companies." All of the candidates for governor, he said, took a similar

position, and there is no question "that the overwhelming majority of both houses of this legislature keenly feel the pressing need for action in this field."

To date, Mississippi is the only state in the Union which "has made no effort from the state level to regulate electric power companies and natural gas companies." Efforts at telephone rate regulation have been almost worthless, he said, for lack of necessary accountants, rate experts, and valuation engineers.

The governor also called for "promotion of rural electrification" in the state.

## Missouri

### King-Thompson Suit Dismissed

**A**SUIT challenging constitutionality of the King-Thompson Act forbidding public utility strikes in Missouri was dismissed recently by Circuit Judge Waldo C. Mayfield, who ruled that the St. Louis court lacks jurisdiction to hear the case brought by the union of bus and streetcar operators.

After hearing oral arguments, Judge Mayfield held that the court has no jurisdiction because neither Governor Phil M.

Donnelly nor co-defendant Daniel C. Rogers, chairman of the state board of mediation, is a resident of St. Louis.

The suit grew out of the strike which halted operations of St. Louis Public Service Company for three and one-half days last October. Acting under provisions of the King-Thompson Act, the governor ordered state seizure of the strike-bound utility and designated Rogers as the state's agent to operate the company until the wage dispute was settled.

## Montana

### Court Dismisses Petition

**T**HE state supreme court recently dismissed a unique proceeding in which the state public service commission had

asked that State Attorney General Arnold H. Olsen be cited for alleged contempt of the high court.

The petition had been based on a televised speech made by Olsen late last year



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in which he commented on a case now pending before the state supreme court on

whether natural gas rates charged by Montana Power Company are excessive.

### Nebraska

#### Rules on Directors

**T**HE state attorney general's office held recently that the Platte Valley and Loup River Public Power districts do not need to elect their directors on a statewide basis, as suggested by Custer Public Power District of Broken Bow.

State law provides that a district operating in more than 50 counties shall choose its directors on a statewide basis.

The provision was made when Consumers Public Power District was being set up about a decade and a half ago.

Neither Platte Valley nor Loup operates in so many counties. The Custer suggestion was based, however, on the fact that the two districts operate in accord on certain matters as the Nebraska Public Power System.

The deputy attorney general said that until such time as an individual district alone, and not in association with another district or districts, is operating in more

than 50 counties, "you have no jurisdiction to proceed."

#### Power Purchase Agreement

**O**FFICIALS of the Nebraska Public Power System and Tri-County Public Power and Irrigation District representatives recently were reported in agreement on a program of power purchase by NPPS from Tri-County.

It was proposed that NPPS purchase all power produced from the \$17,000,000 Tri-County plant near Lexington, which Tri-County hopes to have in operation early in 1958.

Spokesmen of NPPS and Tri-County said approval of the proposed contract would be asked of the boards of the two districts and the Loup and Platte district boards as soon as it could be drawn up.

Loup and Platte now supply power to NPPS, which is a contractual setup with no legal entity.

### New Jersey

#### Utility Tax Bill Signed

**G**OVERNOR Meyner last month signed a bill by the 1955 legislature setting a 7½ per cent ceiling on the average rate of public utility gross receipts taxation. At the same time, by prearrangement with the governor, Assemblyman Rutherford (Republican, Sussex) introduced a bill setting a floor of 5 per cent on the taxation rate.

Meyner earlier had told legislative leaders he would sign the bill setting the maximum taxation rate, only if the legislature would send him later a minimum taxation rate bill to sign.

The governor said that "municipalities have asked for some assurance that the rate would not fall below a certain amount, particularly if there is wide revaluation of assessments."

Both the measure the governor signed and the new bill are favored by the Public Service Electric & Gas Company, which originated the limiting idea.

#### Seeks to Eliminate Weekly Permit

**L**AST month Public Service Co-ordinated Transport asked the state board of

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public utility commissioners to eliminate the 10-cent weekly permit from its fare structure and allow the company to operate on the present intrastate basic fare of 12 cents for the first zone and 5 cents for each successive zone. Student fare rates would remain at existing levels.

Citing additional labor costs estimated at something over \$1,100,000 for the first year and over \$700,000 more for the second year, resulting from provisions contained in a new 2-year contract negotiated with the Amalgamated Association of Street, Electric Railway, and Motor Coach Employees of America, effective February 1st, the chairman of the board of directors

of Public Service Co-ordinated, Lyle McDonald, said the company would sustain a net loss of approximately \$300,000 the first year, under present fare levels.

The increase in labor costs for the first year will reduce operating income to \$400,000, the chairman said, noting that the board of public utility commissioners, in a previous decision, established a minimum operating income of approximately \$1,700,000 as just and reasonable.

The weekly permit, which has been in effect since October 17, 1955, costs 10 cents and, upon display, with payment of a 10-cent cash fare, is good for one ride in any intrastate 12-cent first zone.

## New York

### St. Lawrence Power Contracts Signed

**F**ORMAL contracts for the transmission of power from the St. Lawrence river power project to Vermont and to Plattsburg, New York, were signed recently. At the same time, the New York State Power Authority turned down a request from Massachusetts for 250,000 kilowatts. The action was taken after a meeting of the board of trustees of the authority.

Robert Moses, chairman of the authority, explained that under a tentative allocation of power adopted last May "we don't have 250,000 kilowatts to give anybody." He added that Massachusetts was not within transmission distance of the generating plants.

Mr. Moses and William S. Chapin, general manager of the authority, signed contracts with the state of Vermont and the city of Plattsburg. Governor Joseph B. Johnson and three state public service commissioners represented Vermont. Mayor John J. Tyrell headed the Plattsburg group.

Under the contracts, which have been

approved by Governor Harriman, Vermont will receive 100,000 kilowatts and Plattsburg 30,000. The power agency also has agreed to supply the Air Force base at Plattsburg with 10,000 kilowatts.

The principal contractor for St. Lawrence power is the Aluminum Company of America, which signed a contract last fall for 175,000 kilowatts. Representatives of two large private utilities also have signed agreements providing for the use of their transmission lines to carry power beyond the capacity of the authority's lines.

### Check on Authority Proposed

**A** LEGISLATIVE commission decided last month to do battle with Robert Moses, head of the New York State Power Authority and various other public authorities. It was the unanimous view of the commission that public authorities, such as the state power authority, have too much legal freedom.

To correct this situation, it proposed that the public authorities law be rewritten to give state-elected officials and the fiscal

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committees of the legislature a measure of control over authority finances and operations. This was said to be a subject on which Mr. Moses feels deeply. The effect of placing such controls in the hands of administration or legislative officials will, in his judgment, be to hamstring the authorities, slow their activities, and hinder them in the accomplishment of desirable and necessary public improvements.

A bill to divest the power authority of its present retail rate-making powers was

recently introduced in the state legislature by Senator John H. Hughes (Republican, Syracuse) at the request of the state public service commission, which wants exclusive right to fix the retail prices for authority-generated hydroelectric power.

Chairman Moses contends that any law approving the commission's request would be unconstitutional. He said bonds were sold to private investors on the pledge that the authority had the right to set these rates.

### Ohio

#### Court Upholds Higher Phone Rates

**A**N order of the state public utilities commission granting rate increases of \$7,633,570 per year to the Ohio Bell Telephone Company was upheld on January 25th by the state supreme court. The utility's application for an increase was originally filed with the commission in December, 1953. The commission's order, which slashed \$8,913,000 from the company's request, was issued December 30, 1954 (8 PUR3d 136).

After the increase allowed by the commission was placed into effect on January 1, 1955, the order was appealed to the state supreme court by 11 cities—Columbus, Cleveland, Akron, Canton, Dayton, Toledo, Youngstown, Lancaster, Struthers, Parma, and Maple Heights. Thirty assignments of error during hearings before the commission issued its order were claimed by the cities.

The high state court ruled that the commission's method of determining rates "was a proper one."

### Pennsylvania

#### Gas Rate Rise Takes Effect

**T**HE state public utility commission last month accepted new natural gas rates filed by the Manufacturers Light & Heat Company, Pittsburgh, in compliance with

an order reducing a proposed increase by 31 per cent to \$3,015,697 a year.

The new rates were effective on gas deliveries as of January 20th and would show up first in bills mailed January 31st, the utility said.

### Tennessee

#### Phone Rate Hike Authorized

**T**HE Southern Bell Telephone & Telegraph Company last month was authorized to increase its Tennessee rates by a total of \$2,996,900 a year, effective with billings after February 15th.

The new schedule of rates approved by

the state public service commission is about one-third of the \$9,800,000 asked by Bell in its petition filed in November, 1954. A telephone company spokesman at the time said the company had not decided whether the decision would be appealed.

The increases apply only to dial exchanges.

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### Utah

#### Private Utility Wins

UTAH's supreme court recently upheld a state public service commission order which permitted Utah Power & Light Company to extend service into San Juan county. The order had been appealed to the court by three Colorado power co-operatives on grounds they were already providing service to the area. The co-operatives were San Miguel Power Association, Empire Electric Association, and Colorado-Ute Electric Association.

When it heard the UP&L application last March, the state commission refused to allow the three co-operatives to intervene and granted the application because

the booming uranium business in San Juan county demanded more power.

Written by Justice Lester A. Wade, the high court's unanimous decision pointed out that Utah law permits a public utility to intervene in a case where another public utility is about to interfere with the operation of its system. The decision noted, however, that the state supreme court previously ruled that nonprofit electric co-operatives, such as the three Colorado firms, are not public utilities because they can serve only their own members. "Since plaintiffs cannot legally be required to serve the public generally," the decision stated, "they are not public utilities and the PSC correctly so decided."

### Virginia

#### Co-op Gets REA Loan

THE Rural Electrification Administration last month approved a loan of \$1,045,000 to the Northern Neck Electric Co-operative, Warsaw, for expansion of its rural power system. The co-operative previously had received REA loans totaling \$2,130,000 since 1938.

J. Raymond Allin, manager of the War-

saw office, said improvements to be made under the loan include construction of 125 miles of distribution lines, 11 miles of transmission lines, and six additional substations.

The new distribution lines will serve 1,000 additional rural consumers, he added. Work on the scheduled improvements is expected to be accomplished within the next three years.

### Washington

#### Kaiser Signs Natural Gas Contract

ONE of the largest fuel contracts ever awarded in the Northwest for the purchase of \$20,000,000 worth of natural gas, was announced recently by Kaiser Aluminum & Chemical Corporation. The 20-year contract was signed with Spokane Gas & Fuel Company for delivery of 8,200,000 cubic feet of gas daily to the Mead and Trentwood plants.

Nathan H. Gellert, Jr., president of

Spokane Gas & Fuel, said Kaiser Aluminum would be the largest natural gas consumer in the Spokane area, where the anticipated load will be 30,000,000 cubic feet daily in the next five years.

Kaiser Aluminum is taking immediate steps for conversion to natural gas, to be ready when the fuel is available in July.

The company will have a number of industrial applications for the fuel. Largest single use will be to fire remelt furnaces at the Trentwood rolling mill, it was said.



# Progress of Regulation

## *Trends and Topics*

### Merchandising by Public Utilities

PROMOTION of the sale of appliances is a well-established and proper activity undertaken by public utilities, whether or not the utilities themselves sell appliances. Articles have appeared in *PUBLIC UTILITIES FORTNIGHTLY* on this subject in the issues of June 18, 1953, at page 830, and April 29, 1954, at page 542. Controversies have arisen, however, as to the legality and propriety of merchandising by utility companies. Corporate powers and commission authority have been discussed, as well as questions arising in rate cases as to revenues and expenses.

#### *Questions beyond Commission Authority*

Complaints by the Associated Mechanical Contractors of Arkansas against merchandising operations of the Arkansas Louisiana Gas Company (*PUBLIC UTILITIES FORTNIGHTLY*, February 2, 1956, at page 210) are similar to those of other merchants objecting to what they call unfair competition. The gas company had engaged in the business of selling appliances at retail. These included air-conditioning units and equipment. The complainants asserted that the merchandising of fixtures and appliances is not properly a utility operation. The utility, they said, occupies the favored position of a protected monopoly in its public utility operations with an assured profit, part of which profit it uses in destructive competition with private enterprise. The Arkansas supreme court upheld the commission's dismissal of the complaints on the ground that the commission does not have supervision over all activities of a public utility but only over public utility activities.

The Arizona commission expressed the view that a commission has jurisdiction over activities of public service corporations interested in merchandising activities only to the extent that they affect rates (6 PUR NS 49). In Montana it was ruled that the statute failed to disclose any jurisdiction over nonutility service, and therefore the commission had no jurisdiction over merchandising activities (78 PUR NS 33).



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Long ago the Illinois commission disclaimed jurisdiction over a complaint against an electric company for underbidding of contractors for house wiring (PUR1919E 907). The Maryland commission ruled that it could exercise no jurisdiction over electric companies when engaged in the work of wiring houses since they would not be engaged primarily as public utilities but rather as contractors in competition with other contractors engaged in the same business (PUR1920C 501).

The New York commission, in the Central Hudson Gas & Electric Corporation Case (PUR1932B 165), held that its regulatory power could not be exercised to prohibit merchandising unless such practice resulted inevitably in a violation of some provision of the Public Service Commission Law. The commission said that the right of the company to deal in electric appliances was not open to question. In New York it has also been ruled that the commission lacks power to regulate charges for appliances or for jobbing work done by a utility company (37 PUR NS 218, 48 PUR NS 25).

A filed schedule prescribing charges for all repair and maintenance work on customers' appliances and installations and the servicing of those appliances by the Milwaukee Gas Light Company, according to a Wisconsin commission decision (44 PUR NS 194), did not constitute a schedule of charges for utility service and therefore was not subject to the jurisdiction of the commission. The work covered was said to be more in the nature of a merchandising operation upon merchandise sold by others as well as the utility.

### *Right to Sell Appliances*

A Texas court, several years ago, decided that a public utility corporation operating under a charter empowering it to furnish gas, electric, and street railway service could not engage in the purchase and sale of appliances used in the consumption of gas and electricity. Such sale of merchandise was held to be beyond its corporate powers (PUR1932B 337).

But a Pennsylvania court decided that Philadelphia Electric Company, chartered for the purpose of supplying heat, light, and power by electricity, was lawfully acting within the scope of such charter when it sold, as an incident to its regular utility business, electrical appliances by means of which power was delivered to and utilized by its own consumers (PUR1930D 7). The same rule was reaffirmed in a case where the commission had rejected "securities certificates" in connection with conditional sales contracts for appliances. The court said that the public utility law recognized the right of utilities to deal in appliances by imposing regulations with reference to the sale and leasing of appliances and equipment (24 PUR NS 45). The commission had improperly interfered with management, assigning as a sole reason the policy of the commission "to prevent electric utilities from engaging in the sale of appliances."

An electric corporation in New York state was held to be acting within its corporate powers in engaging in a promotional merchandising and jobbing campaign where its sole interest in the merchandising plan was to promote the sale of electrical energy (16 PUR NS 365). Also in Massachusetts, where

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revenues and expenses in a rate proceeding were in question, it was said that an electric company had the right to sell appliances (5 PUR NS 369).

The other side of the picture turned up in Missouri, when the commission decided that a public utility company was within its rights in discontinuing the selling of merchandise because of objections made and agitation that had arisen against the sale of appliances by public utilities, although this resulted in shifting new business expense to other departments (6 PUR NS 269).

The Kansas supreme court went further into the question when it not only decided that a public utility corporation had the right to engage in the sale of appliances, but also held that a state law enacted in 1931 prohibiting merchandising activities was unconstitutional (PUR1933D 435). The court did not think that this particular class of corporations could be singled out by statute and deprived of a right and privilege belonging to others. It was called "strictly class regulation" without any reasonable relation to the welfare of the public.

### *Merchandising Arrangements and Methods*

The Alabama commission approved a contract between the Alabama Power Company and the Tennessee Valley Authority under the terms of which the utility would be enabled to participate in the sale and distribution of low-priced electric appliances in co-operation with a financing agency of the federal corporation (4 PUR NS 225). The condition was imposed that the utility put into effect residential rate levels low enough to enable customers purchasing such appliances to make reasonable and economic use of them.

The Pennsylvania commission disapproved an agreement between an electric and gas company and an affiliated sales company providing for the distribution to the sales company of orders for appliances and equipment taken by salesmen of the utility company (38 PUR NS 91). This would shift promotional activities from the sales company to the utility, while the sales company did the actual selling and took the profit. The commission did not think the utility should expend large sums of money, charged to operating expenses, for the solicitation of orders for appliances for the benefit of an affiliated company.

The Illinois supreme court decided that a rate charged by Commonwealth Edison Company to certain commercial consumers which combined a charge for current used with a compulsory charge for furnishing incandescent lamps was unlawful since it gave the utility a possible monopoly of the lamp business to the detriment of independent dealers in such merchandise. It was said to violate the consumer's right to purchase electrical merchandise wherever he might desire (PUR1932D 26).

In Washington a statutory provision that any merchandising carried on by a utility should not constitute a part of its public utility business was interpreted as not intending to divorce merchandising activities from the legitimate utility business except for good causes, such as stealing the business from other dealers or conducting the same as a separate merchandising business for profit (13 PUR NS 187). The commission said that private dealers seldom do the necessary "missionary work" but when the demand for appliances has been created by the utilities, these same dealers reap their full share of profits.

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The New Hampshire commission considered it proper for an electric company to sell appliances to employees at a discount, but it was said that employees should pay all out-of-pocket costs (94 PUR NS 124).

### *Review of Current Cases*

#### Escalator Clause Upheld by Court on Issues of Commission Authority and Due Process

THE power of the Virginia commission to approve an escalator clause to be applied to the gas rates of the Virginia Electric & Power Company was upheld by the state supreme court on appeal by the city of Norfolk. The company obtains its gas supply from a pipeline company at prices ultimately determined by federal authority.

The cost of purchased gas has amounted to about 50 per cent of the company's operating expenses. Any change in this cost, which is beyond the company's control, would therefore vitally affect its rate of return. As a means of enabling it to avoid the disruptive effects of constant fluctuations in supply costs, the commission approved the use of an escalator clause, unanimously finding that it was just and reasonable (7 PUR3d 108). Under this clause the company's net income will not be affected by supply cost fluctuations. Consumers will pay for any increase in cost but will also enjoy the benefit of any decrease.

##### *Commission Authority*

The city did not maintain that the company would gain any equitable advantage under the clause but contended, rather, that the commission transcended the limits of its legislative discretion in approving it.

Upon examining the applicable statutes, the court declared that the commission has authority to change any part of a filed schedule, rate, rule, or regulation that in

any manner affects the rates charged or to be charged. Observing that an escalator clause is merely a fixed rule under which future rates are determined, the court held that the approval of the clause was entirely within the commission's authority.

##### *The Question of Due Process*

The city further contended that automatic increases in the charges to customers when the cost of gas increases would constitute a violation of the due process of law requirement since a public hearing would not be provided before each increase becomes effective.

The court quoted the commission, which pointed out in its opinion that, along with other states, it had for many years approved electric rates based on fuel clauses, and no objection had ever been made to them. It was observed that such fuel clauses could not be distinguished in effect from the escalator provision approved in this case. The commission further pointed out that escalator rates had met with approval in other states.

The Virginia statutes require that notice be given before any change is made in a filed schedule. They also provide that all rate schedules, together with all rules and regulations affecting rates to be charged, be kept on file with the commission.

The court said these statutes clearly do not require notice on each occasion that a change in the ratepayers' bills occurs, but

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that notice must be given for each change in the filed schedules. This requirement affords the ratepayer ample opportunity to be heard as to the reasonableness of the rates he shall pay. Furthermore, said the

court, an aggrieved ratepayer may go before the commission at any time and complain that rates or schedules are unjust or unreasonable. *City of Norfolk v. Virginia Electric & Power Co.* 90 SE2d 140.



### Rate Schedules for Electricity Sold to Municipalities for Resale Not Unlawfully Discriminatory

AN order of the North Carolina commission authorizing the Virginia Electric & Power Company to increase rates for electricity sold to municipal plants was appealed by a number of municipalities to the superior court and finally to the state supreme court. The commission's decision was sustained in both courts.

The municipalities did not contend that the total revenues to be derived from the new rates were excessive, or that the rate of return allowed by the commission was excessive. The substantive question on appeal was whether the schedules of rates made applicable to the protesting municipalities were unreasonable, excessive, and unlawfully discriminatory as between them and REA co-operatives and large industrial users for which different schedules had been established.

#### *Discriminating Fuel Clause*

Most of the protesting municipalities had been purchasing electricity from the company under an old schedule which contained no fuel clause, so that their rates were appreciably lower than those applicable to other municipalities purchasing current under similar circumstances but under schedules that were subject to a fuel clause. The favored users claimed the commission erred in permitting the company to withdraw the schedule having no fuel clause.

The court declared that they had no vested right in this schedule and that

whether it should remain operative was a question for the determination of the commission. It would clearly be an unwarranted discrimination, said the court, to require the company to continue to serve some municipalities at rates reflecting fuel costs of three decades ago while serving other users at rates based on present-day generating costs.

#### *Municipal Plants Distinguished From Co-operatives*

The municipalities insisted that they were entitled to low rates comparable to those applied to REA co-operatives, since, as they contended, they were nonprofit corporations like the co-operatives, buying electricity for resale and devoting their net revenues to the benefit of their citizens.

The court was of the opinion, however, that the municipalities were not nonprofit corporations in the nature of co-operatives. It was pointed out that the power of the municipalities to fix their own rates is not limited, whereas rates of the co-operatives are subject to commission regulation. The conditions under which REA co-operatives must operate, said the court, are sufficient to justify classifying them, for rate purposes, separate from municipalities which sell electric energy for profit.

The municipalities further argued that the low rates fixed for the co-operatives had resulted in relatively high rates for other users. The court thought this position was not well taken for the reason

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that if the company had to sustain the expense of constructing lines through sparsely settled rural areas, with consequent line losses, its operating expenses would be greatly increased, necessitating higher rates for other users.

Furthermore, the argument on this point had become academic because, although a schedule of relatively low rates was applicable to co-operatives yet, as a practical matter, all the co-operatives in North Carolina were being served from the Kerr dam under a contract with the federal government. The court observed, moreover, that while the municipalities condemned as discriminatory the schedule applicable to the co-operatives, they sought to obtain for themselves the identical rates contained in that schedule. Such a position was untenable.

### *Industrial Rate Classification*

The municipalities complained that a new schedule made applicable to large industrial customers was discriminatory.

The court observed that it was necessary to consider the use characteristics and load factors, as well as the amount of electricity purchased under the schedule, in order to determine whether a justifiable basis existed for its separate establishment. Although the demand of one of the municipalities was sufficient to bring it within the kilowatt requirement of the schedule, only one industrial user was able to qualify.

The industry had a load factor much greater than any of the municipalities and consumed nearly as much energy as all of them consumed together.

While the court indicated that there must be substantial differences in service or conditions to justify a difference in rates, it held that the load factor as between the municipalities and the industrial user was sufficient to justify different rate classifications. *North Carolina ex rel. Utilities Commission v. Municipal Corporations of Scotland Neck et al. No. 234, December 14, 1955.*



## Financial Inability Bars Borrowing from REA at Taxpayers' Expense

THE Indiana commission denied authority to a rural telephone co-operative association to borrow \$70,000 from the Rural Electrification Administration and to issue notes as evidence of the indebtedness on the ground that the co-op would be financially unable to pay back the loan. Two previous REA loans had been made to the association and no principal or interest had been paid on these loans.

It was found that the operating revenues of the telephone association were not sufficient to operate and maintain present telephone plant and service and retire funded debt. The commission said that to permit

the company to become indebted an additional amount would be a violation of the statutes of the state of Indiana which require the commission to grant approval of the issuance of securities only when they "shall be reasonable in aggregate amount, due consideration being given to the nature of the business in which the corporation is engaged, its credit, future prospects, and earnings, and the effect which such issue may have upon the management and efficient operation of the public utility."

### *Financial Prospects*

There was no evidence in the record that the credit, future prospects, and earn-



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ings of the company were sufficient to warrant approval of the loan. The commission said that to permit a prospective borrower to extend itself beyond its ability to repay is a disservice to the borrower and to the public as well. The fact that the proposed creditor happened to be the United States government as contrasted with a private source of funds would in no way mitigate the dereliction of duty or condone the economic immorality of the act. Funds procured from taxpayers should

be, if anything, safeguarded with more rigid elements of security than those of ordinary investors whose money is voluntarily placed for investment. The commission concluded by saying that it could not add its approval to the feasibility of a grant of additional federal funds to a borrower who had already demonstrated its lack of ability, or perhaps desire, to repay or service its debt. *Re Hancock Rural Teleph. Corp. No. 26375, December 2, 1955.*



### Commission Disclaims Jurisdiction to Regulate Taxicabs

**T**AXICAB operators in the District of Columbia petitioned the commission requesting it to exercise regulation and control over the number of vehicles for hacking purposes.

The commission had given careful and sympathetic consideration to the economic grounds presented at an informal discussion in support of a limitation of the number of taxicabs to be licensed. The commission was not unmindful of the efforts of the industry, over a period of many years, to secure legislation which would give the commission power to limit the number of taxicabs that could be licensed to operate in the District of Columbia upon a determination of public convenience and necessity.

However, it was pointed out that the commission could act only under powers delegated to it by Congress. Congress had

not seen fit to delegate the power to grant or withhold licenses to operate, that power having been delegated to the District commissioners and their agents. Only they had power to revoke or suspend a license granted by them.

The petition before the commission failed to point to any delegation of such power to the commission, arguing that the commission should exercise such a power in the public interest. But action in the public interest, stated the commission, must be an exercise of a power which has been granted to it and the commission had not been given power to control all matters affected with the public interest. The commission did not have jurisdiction to take the action requested, and the petition was dismissed. *Re Taxicabs for Hire, Order No. 4235, PUC No. 3419/24, November 29, 1955.*



### Authority for Motion Picture Transport Denied

**A** PRIVATE motor carrier authorized to transport newspapers in an area was denied additional authority by the Colorado commission to transport motion picture film and motion picture advertising.

No need for the proposed service on a regular basis was shown, nor was it shown that the additional business would warrant an extra employee and provide funds to amortize additional equipment.

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A private carrier operating in the area had protested the applicant's request. The commission, although not basing its decision upon this point, took the occasion to make it clear that since a private carrier can avoid the obligation to serve the public except as its convenience and the rate situation may dictate, it is not entitled to the slightest protection from encroachment of other carriers upon its operation. Any

carrier which can show that additional service is warranted or needed, and that it is qualified financially and by experience to render the additional service, is entitled to be authorized to do so, consistent only with due protection of the rights of common carriers serving the territory, not private ones. *Re Terrell, Application No. 13607-PP, Decision No. 44846, November 1, 1955.*



### Company Furnishing Cabled Television Antennae Service Subject to Regulation as Telephone Corporation

THE California statutes relating to regulation of telephone companies, according to a state commission decision, extend to a company engaged in the business of furnishing cabled television antennae service. Overruling objections to regulation as a public utility, the commission ordered such a company to take steps to satisfy complaints against the quality of its service. The commission also ordered the company to comply with all state laws and rules and regulations pertaining to the operation of a telephone corporation.

#### *Nature of Cabled Service*

Television Transmission, Inc., against which complaints had been filed by customers, furnishes coaxial cable television antenna service to approximately 950 television sets in Contra Costa county. Approximately 700 sets are within the city limits of Martinez. To operate this service the company places a high gain antenna array on a higher terrain area than the area to be served. From this advantageous point the antenna receives signals from whatever sources are available within the limitations of the location of the antenna.

The signals are taken into individual

antenna strips for each channel, automatically amplified according to the rise and fall of the signals, sent down through coaxial cable passing progressively through spaced amplifiers to lift the level of the signals, and then distributed off the cable to the subscribers' television sets by tap-off devices. The tap-off is a condenser wire connection which takes a certain percentage of the signal off the main cable and feeds it into the dwelling for the individual television set.

The company uses utility poles to provide service, under an agreement with the Pacific Gas and Electric Company and the Pacific Telephone & Telegraph Company. Subscribers for the service pay a connection fee and a continuing monthly charge.

#### *Tests of Public Utility Status*

The commission agreed that the company was not subject to regulation as an electrical corporation since the television antenna system does not furnish electricity for light, heat, or power in any manner whatsoever. In support of its ruling that the company was operating as a telephone company, the commission quoted from the state law which provides, among other things, that a "telephone line" includes all conduits, ducts, poles, wires, ca-

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bles, instruments, and appliances, and all other real estate, fixtures, and personal property owned, controlled, operated, or managed in connection with or to facilitate communication by telephone, whether such communication is had with or without the use of transmission wires.

The commission referred to the decision of the state supreme court in *Pacific Telephone & Telegraph Co. v. City of Los Angeles*, 282 P2d 36, relating to a telephone company's franchise rights. There the court said that a law authorizing telephone companies to construct their lines along public highways places no restrictions on what may be transmitted by means of electrical impulses over such lines, and telephone companies may use their lines interchangeably for transmitting telephone messages, telegraph messages, teletypewriter messages telephotographs, program services (including radio

and television broadcasts), and other communications service by means of electrical impulses. The court did not think that the state franchise granted to a telephone company was limited to the transmission of "articulate speech."

### *State Regulation*

The company had made no showing that its service was subject to regulation by the federal authority or that federal authority had acted to exclude state regulation.

The state commission said that in the absence of action by federal authority, the state might regulate not only the intrastate phases but also the interstate phases of the company's service by reason of the local nature of its operations. *Couch et al. v. Television Transmission, Inc. Decision No. 52488, Case No. 5594, January 16, 1956.*



## Parcel Delivery Authority Denied as Unfair and Against Public Interest

THE Washington commission jointly heard and denied applications filed by two companies requesting authority to operate as common carriers of general merchandise in packages not exceeding 50 pounds each.

The commission found that existing common carriers, which provided an adequate and complete freight service, derived a substantial portion of their revenues from the movement of packages weighing 50 pounds or less. Loss of the revenues from such business would jeopardize their ability to maintain their service, which was shown to be essential to the public needs.

The applicants limited their proposed service to profitable trips only, in competition with other carriers providing com-

plete freight service. Reduced rates were the only apparent advantage of the proposed operations over the existing service. To grant these applications, said the commission, would be to give the applicants an unfair advantage over their competitors and would not be in the public interest.

### *Joint Use of Vehicles*

Under an exempting provision of a statute which prohibited joint use of carrier vehicles in more than one class of service, the applicants requested permission to operate their vehicles in both contract and common carrier operations at the same time. They offered no tested formula, however, for allocating joint expenses between the two classes of service.

The commission found that joint use of

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vehicles would enable the applicants to divert traffic needed by existing carriers, tending to impair their stability and dependability. It was also observed that joint use would permit the carriers to make different charges for the same service in the same vehicle.

Although the applicants argued that increased efficiency would result from the joint use of vehicles, the commission not-

ed that the same argument could be made for all motor carriers, so that if permission were granted for one carrier, it must be granted for all, contrary to the intent of the applicable law. For these reasons the requested permission was denied. *Re United Parcel Service of Seattle et al. Hearing Nos. P-29500, E-9445, P-29808, Order M. V. No. 64042, Cause Nos. T-9070, T-9101, November 30, 1955.*



### Recovery for Electricity Inaccurately Metered

THE United States court of claims awarded recovery to the Puerto Rico Water Resources Authority for unmetered electricity supplied to the federal government over a period of nearly two years. Liability had been denied on contractual grounds.

The meter through which the government was supplied failed to record the full amount of energy passing through it, because of a "phase unbalance" resulting from a blown fuse for which the government was found to be responsible. A contract between the parties provided that in the event of "error in meter readings" the government would not be liable for unbilled electricity furnished prior to the date of the meter reading applying to the last bill. If, as it was contended, the meter failure and the consequent error in billing amounted to an "error in meter readings,"

recovery for nearly all of the period in controversy should be denied.

But the court could find no merit in this contention. There was no error in reading the meter; the meter simply failed mechanically. Noting that the government drew the contract, the court said if it intended to limit its liability resulting from mechanical failures for which it was responsible, less ambiguous language should have been used. The contract provision did not, therefore, apply.

In computing the amount of recovery, the court predicated its estimate on a 5-month average before the recording failure and a 5-month average after the controverted period, taking into consideration certain other slight variations affecting consumption. *Puerto Rico Water Resources Authority v. United States*, 135 F Supp 532.



### Rate Increase for Company with High Debt Ratio Produces Low Rate of Return

A SMALL telephone company was authorized by the Utah commission to increase rates to a point where the return would be 3.61 per cent, called a very low return when compared with amounts customarily approved. Operations during the

past 12-month period had resulted in a substantial loss.

Although the over-all rate of return and cost of capital was low, an unusually high debt ratio resulted in a high return on capital stock. Common equity accounted

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for only 11.38 per cent of the total capitalization compared with 88.62 per cent debt. The extremely high debt, said the commission, carried with it an implication of considerable risk, even though the interest rate was low. This interest was a fixed charge that must be met each year.

The capital stock, having a par value of \$10, had a book value of \$24.03 a share, based upon the common equity of about \$60,000. Earnings of slightly over \$9,000 applicable to the equity, said the commission, might appear to be somewhat higher than should be necessary, but the commission was dealing with a company with an "unorthodox financial structure."

### *Future Operating Results Considered*

The commission noted that as a general practice it has predicated its findings as

to the earnings requirements of a utility on a past test period. In the instant case, however, the commission gave greater consideration to an estimate of operating results for a future one-year period. The primary reason for this approach was the fact that the plant expansion and rebuilding program was practically complete, and the present investment in plant was a more suitable measure for the immediate future.

The estimate of operating revenues for the future was based upon the number of telephone stations which it was expected would be in use during the period. The expense estimates were tied to the actual figures for a past 12-month period but adjusted for known changes which would have an effect on such costs. *Re Bear River Teleph. Co. Case No. 4180, August 25, 1955.*



## Gas Rate Increase Approved on Basis of Cost of Capital And Hypothetical Debt Ratio

THE Massachusetts commission approved a rate increase filed by a gas distributing company, after investigating on its own motion the propriety of the requested increase. Serving about 33,300 customers, the company earned a rate of return of only 3.36 per cent during the preceding year.

### *Debt Ratio and Cost of Capital*

About 90.4 per cent of the voting stock of the company was owned by a holding company, whose consolidated balance sheet indicated a debt ratio of about 57 per cent. If the operating company were independent, the commission held, its debt ratio would normally be about 45 per cent. While the commission indicated that it did not criticize the company's fiscal policies, it thought, nevertheless, that equity considerations required the use of a hypo-

thetical debt ratio in determining an allowable rate of return.

The company's stock was quoted in the market at a substantially lower figure than its book value. Considering that other comparable gas companies sell at an earnings-price ratio of about 7 per cent, it was found that in order for the applicant to have a market value equal to its book value, it should have earnings of about 6.4 per cent on book value. At a 45 per cent debt ratio, the interest cost of debt would be about 4 per cent, and the indicated requisite return on the equity capital component would be  $7\frac{1}{2}$  to 8 per cent. On this basis the cost of capital would range from about 5.9 to 6.2 per cent. Considering all the factors involved, the commission determined that a fair rate of return for this company would lie between 6 and  $6\frac{1}{4}$  per cent.

Applying the increase in revenues to be



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derived from the requested rate increase to the normalized operating results for the test year, it was found that the rate of return on the rate base would be 5.37 per cent. Since this rate of return was less than the minimum rate found to be reasonable, the proposed increase was held to be fair and reasonable and therefore approved.

### *Special Contracts Discouraged*

The company had entered into a number

of contracts with commercial customers for the purchase of gas at special rates. The commission expressed dissatisfaction with this practice.

However, one such special contract was ordered to be canceled at once, and the company was required to file a comprehensive plan satisfactory to the commission providing for an integration of its special contracts with its general rate schedule. *Re Lawrence Gas Co. DPU 11512, December 19, 1955.*



## Accounting Procedure Prescribed for Accelerated Amortization

THE Utah commission, in approving an application by an electric company for authority with respect to accounting for accelerated amortization of emergency defense facilities, authorized an accounting procedure which recognized the effect of such amortization as a deferment of income taxes. The applicant, Utah Power & Light Company, having obtained the necessary certification in compliance with § 168 of the Internal Revenue Code of 1954, was amortizing 80 per cent of the cost of certain transmission lines and facilities over a 5-year period.

### *Accelerated Amortization Accounting*

The commission noted that during this period there would be substantial deductions against net income for tax purposes, with a reduction in the amount of the tax, while after that period the deductions would be much smaller and the tax would increase. Assuming a constant income tax rate during the entire life of the facilities, it was observed that the total taxes to be paid would be the same under accelerated amortization as under normal depreciation.

The effect of the former treatment,

therefore, said the commission, is to defer the payment of a part of the income taxes.

In applying accelerated amortization to emergency facilities, the commission indicated, a company should accrue depreciation on its books at normal rates in respect to such facilities. During the years in which there may be an immediate tax saving, the amounts of such saving should be charged to a special account entitled "Provision for Deferred Taxes on Income" as a subaccount to the regular tax account, and a credit should be made to an account entitled "Earned Surplus Restricted for Future Taxes on Income" as a separate account under the regular earned surplus account. Beginning after the amortization period, a charge should be made to the restricted earned surplus account in an amount for each year equal to the increase in income taxes resulting from the normal tax depreciation deduction. At the same time and in the same amount, an account entitled "Current Taxes on Income Deferred in Prior Years," through a subdivision of the regular tax account, should be credited. *Re Utah Power & Light Co. Investigation Docket No. 66, December 29, 1955.*

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### Court's Independent Judgment on Law and Facts Required in Rate Appeal

THE Tennessee supreme court ruled that a utility, in contesting a commission order on the ground of confiscation of property without due process of law, is entitled to the independent judgment of the trial court both on the law and the facts. The ruling was contained in an opinion on a petition to rehear filed by a telephone company in a rate case appeal.

On the original appeal (10 PUR3d 243), the court had held that the findings and conclusions of the commission could not be disturbed because they were supported by material evidence. This holding

was assigned as error in the petition to rehear, for lack of independent judicial judgment on the law and facts, there being a question of confiscation involved.

The petitioner cited two United States Supreme Court decisions (PUR1920E 814 and 14 PUR NS 397) which supported its position, and they were declared to be conclusive in this case. The cause was therefore remanded to the trial court for findings and conclusions based on its independent judgment. *Southern Continental Teleph. Co. v. Tennessee R. & Pub. Utilities Commission*, December 9, 1955.



### Revenue Refund Plan to Finance Water Plant Disapproved

THE necessity of presenting an adequate financial plan in a certificate proceeding was stressed by the California commission. A corporation, formed by a land development company to provide water service to a newly developed residential project, proposed to acquire the necessary plant. This had already been installed by its parent corporation. The acquisition was to be effected by a stock issue to the parent to cover a portion of the facilities and by payments amounting to 22 per cent of the revenues derived from the system over a period of twenty years to cover the balance of the property. Future expansion was also to be financed by means of such revenue refunds.

#### *Financial Ability*

The applicant intended to rely on the parent development company for general office, bookkeeping, and accounting services, as well as for upkeep and repairs to the water system. Despite the high rates and charges requested, it was apparent

that revenues would be insufficient to satisfy the applicant's plan. It was proposed, moreover, to use depreciation funds to meet the 22 per cent revenue refund requirement.

The commission concluded that the financial showing in the application was wholly inadequate and contrary to the public interest. Under the proposed plan the applicant could not survive alone but would be entirely dependent upon its parent.

#### *Main Extension Rule*

It was observed that the revenue refund plan was at best a misapplication of the "main extension" rule, which is applicable only to the extension of mains from operating systems. The plan of acquisition proposed, said the commission, was most inappropriate.

Dismissing the application without prejudice, the commission indicated that it would reconsider its action if the applicant would present a satisfactory plan for the acquisition of facilities and could show

## PUBLIC UTILITIES FORTNIGHTLY

that its operations might have some reasonable prospect of financial survival and perpetuity of service. The applicant should look toward an adequate capital structure

to finance the ultimate development, the commission said. *Re Woodside Oaks Water Co. Decision No. 52010, Application Nos. 36997, 37053, October 4, 1955.*



### Service Extension to New Area Denied

THE Utah commission turned down a request to order a water company to extend service. The obligation of a public utility, said the commission, is to render reasonable and adequate service to all persons within its service area. The utility must make additions and improvements required to serve adequately and satisfactorily and must be alert to the present and future needs of its customers.

In consequence of this obligation, and particularly with reference to a water utility, there must be a defined area which the company proposes to serve, since the lifeblood of a water system is the water and a satisfactory supply cannot be manufactured.

#### *Map Defines Service Area*

A map filed by the company with the commission was held definitive of the company's service area. The applicants were all outside such area. The commission pointed out that even though it had the power to order the company to extend

service outside the area it professed to serve, the circumstances in this case would not warrant such action.

If such action were taken, other property owners adjacent to the area served by the company could demand that service be extended to them and there would be no place to stop. The company would be compelled to expand its system far beyond what was contemplated and outside the sphere of its duty and responsibility. Such expansion could very well impair or destroy further expansion of service within the area.

The applicants were found to have readily available water service from other sources.

The water company had never directly or impliedly offered service. The commission further found that the company presently owned no more than sufficient water to meet the present and future requirements of its service area. *Nowlan v. Union & Jordan Irrig. Co. Case No. 4179, December 6, 1955.*



### Telephone Company Rule on Service Discontinuance For Illegal Use Upheld by Commission

A FORMER customer of a telephone company petitioned the Massachusetts commission to order the company to restore service, which had been discontinued upon the company receiving word from a law enforcement agency that the instrumentality had been used for illegal purposes.

A regulation of the company authorized it to take such action.

The commission was asked to review its holdings in previous cases and to find, among other things, that the regulation was not a reasonable rule and that the procedure was unconstitutional as depriving the applicant of property without due

## PROGRESS OF REGULATION

process of law. After considering the customer's contentions, the commission saw no reason to reverse previous holdings, and it dismissed the action.

### *Police Request for Service Denial*

The argument was advanced that the police should not be permitted to have the power to deny telephone service to an individual without good reason. The commission stated it had as little sympathy with a police state as had any one, but did not believe that it was the proper tribunal to determine whether or not police action was justified. The commission made it clear that it was not dealing with the reasonableness of the action of the police, in this case, but only with the tariff of the telephone company and whether or not the company was justified in doing what it did.

The commission agreed that it would be an intolerable situation for the police to be able to prevent a person from enjoying any public utility service on mere suspicion or without reason. The commission further noted that there was substan-

tial conflict in the courts in other states as to whether the regulation in question was a reasonable one, but thought that sound public policy dictated that it continue to follow the line of cases which considered the regulation valid and reasonable, leaving the ultimate determination as to the reasonableness of the attitude of the police up to the courts.

### *Constitutional Right to Service*

As to the constitutionality of the tariff provision, the commission pointed out that one did not judge the reasonableness of a business regulation by constitutional standards. Moreover, there is no constitutional right to utility service, since it is not property, the deprivation of which is forbidden by the federal and state constitutions. Nor was the petitioner being denied equal protection of the law. He still had his legal remedy by way of a court action, which was in no way affected by the refusal of the commission to take jurisdiction. *Holt v. New England Teleph. & Teleg. Co.* DPU 11544, December 20, 1955.



## Service or Exclusion Ultimatum Given Mutual Telephone Company

RESIDENTS of a certain area asked the Illinois commission to revoke the certificate of public convenience and necessity granted to a telephone company. Allegations were advanced that the company, a mutual organization which had submitted itself to commission jurisdiction, had refused to render service unless the residents built and maintained their own lines and facilities. The area in question was  $2\frac{1}{2}$  miles long and 2 miles wide, and there were twenty-five applicants desiring service.

The commission denied the request for revocation, stating it was not in the best interest of the public. The company, however, was directed to construct and maintain necessary lines and facilities to provide adequate service to the residents in the area within ninety days. In the alternative, the company was ordered to revise its exchange boundary map to exclude the area in question, thus permitting adjacent utilities to serve the residents. *Romano v. Brighton Teleph. Co.* 42645, December 20, 1955.

## Depreciation and Taxes Do Not Require Working Capital

THE Minnesota commission authorized a telephone company to increase its rates so as to produce a return of 5.75 per cent. The return was considered reasonable when applied to a fair value rate base.

A composite depreciation rate was fixed at 4.18 per cent.

The company had claimed a cash working capital allowance amounting to six weeks' operating expense, or six fifty seconds of proposed *pro forma* expenses in-

cluding operating taxes and income taxes but not including depreciation. Taxes, said the commission, are accumulated considerably in advance of payment, so they should not be included in a computation of working capital requirements. The commission considered operating expenses other than depreciation and taxes and authorized an allowance based on six weeks' operating expense, exclusive of depreciation and taxes. *Re Minnesota Teleph. Co. M-3852, November 23, 1955.*

## Other Recent Rulings

*Apportionment of Crossing Expense.* The Missouri commission commented that, although it had authority to apportion the expense of relocating telephone and telegraph wires in connection with a railroad crossing, such authority was limited to apportioning the expense between the railroad and highway commission, and could not be taxed against telephone or telegraph companies. *Missouri State Highway Commission v. Thompson, Trustee, Case Nos. 13,063, 13,065, October 20, 1955.*

*Certificate Transfers.* The supreme court of Nebraska held that where a certificate is not dormant, it may be transferred on commission approval if the transfer will be consistent with public interest, will not unduly restrict competition, and if the transferee is fit, willing, and able to perform the service proposed. *Caudill v. Lysinger, 72 NW2d 684.*

*Orders Reviewable.* The supreme court of Nebraska held that an order by which the commission, after overruling motions to dismiss a complaint against motor carriers and a motion for rehearing, ordered

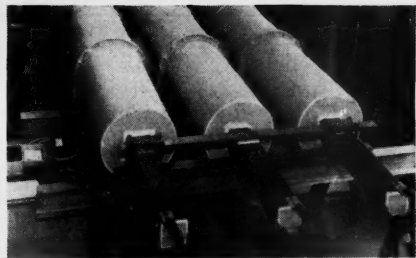
a hearing on the complaint, was procedural and interlocutory in character and, therefore, was not appealable. *Houk v. Beckley, 72 NW2d 664.*

*Substandard Clearance at Crossing.* The Missouri commission denied an application by a city for authority to retain and use as a barge dock an overhead crossing which had substandard clearances and was closed to the public, stating that since it would not authorize such a structure to be erected, it could not approve its retention. *Re City of Jefferson, Case No. 13,258, December 15, 1955.*

*Station Agency.* A railroad was authorized by the Missouri commission to close a freight agency station in a small town, notwithstanding a threefold excess of revenues over expenses, where it was shown that only a few outbound carload shipments were handled, that agency service for less than carload shipments was supplied by motor carrier, and that the nearest agency station would thereafter be only 7 miles distant. *Re St. Louis S. F. R. Co. Case No. 13,113, December 16, 1955.*



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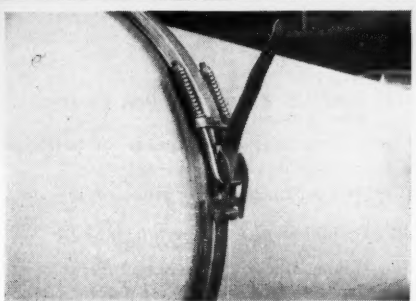
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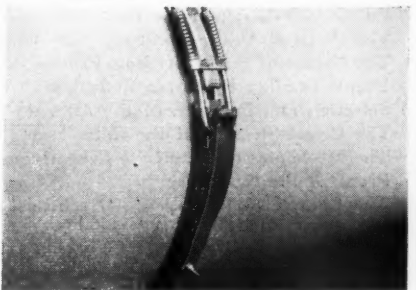
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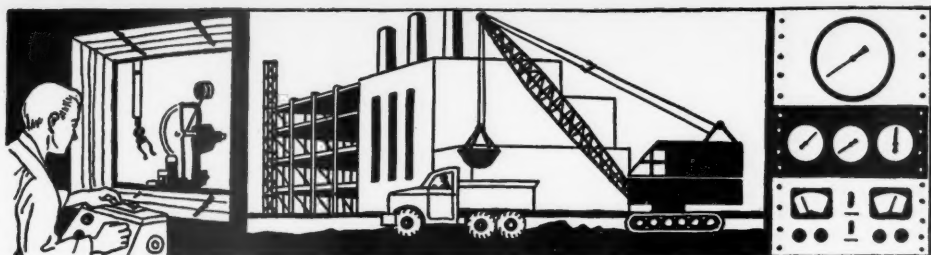
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- ▶ introducing the evidence
- ▶ examining the witnesses, etc.

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Examination In Chief  
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## Industrial Progress

### General Telephone System Has \$500,000,000 Program

DONALD C. POWER, president of General Telephone Corporation, announced recently that the telephone companies within the General System would spend more than \$500 million during the next three years for expansion and development of telephone facilities. "We expect to gain half a billion telephones through internal growth during the same period," Mr. Power added.

In addition to the expansion of its telephone facilities, General's manufacturing subsidiary, Automatic Electric Company, will spend \$16 million during 1956-57 to build a new factory in the outskirts of Chicago. It is planned that the factory will be in operation in 1957.

### Atlantic City Electric to Add Extension at Deepwater

As part of its recently announced expansion program, Atlantic City Electric Company has awarded a contract to Gibbs & Hill, Inc., New York consulting engineers, for the design of an installation as an extension to its Deepwater, N. J. steam generating station. Designated as Unit No. 7, the extension will represent an investment of about \$8,550,000.00. Its principal function will be to provide process steam and to generate 23,000 kw. of by-product electricity for E. I. duPont de Nemours & Company's Chambers Works at Deepwater.

### New EEI Campaign Promotes Electric Freezers

"FREEZER Living is Leisure Living," a campaign to acquaint the modern housewife with the joys of electric freezer living, has just been announced by the Edison Electric Institute. Part of the 1956 Co-ordinated Promotional Programs the campaign

will extend through the months of May, June, July and August.

In making the announcement, Robert L. Coe, chairman of the EEI Residential Promotion Committee and residential sales manager of the Union Electric Company of Missouri, stated that utilities and dealers used nearly 14,000 sets of similar freezer material in 1955. With the expected increase in freezer and refrigerator-freezer sales in 1956, the participation in the EEI freezer promotion will increase materially.

The promotional kit for the Co-ordinated Campaign contains wall and window banners of varying sizes and shapes, and a salesman's reminder with adhesive back to place on the door or cover of the appliance. Also available is a consumer's leaflet to give to store traffic.

Samples of the "Freezer Living is Leisure Living" material will be distributed to national publicity media,

utilities, manufacturers and related organizations on February 1, 1956. The deadline for orders is February 24th with bulk shipments going to utilities on March 16th.

### Georgia Power Plans \$41,000,000 Expansion

GEORGIA Power Company has a \$41,000,000 construction program planned for 1956.

Harlee Branch, Jr., president, said the figure exceeds 1955 expenditures by \$12,000,000.

Projects at Plant Yates, located on the Chattahoochee river between Newnan and Carrollton, represent the largest item in the budget.

Some \$13,600,000 will be spent on two steam-electric generating units at Plant Yates. The ultimate capacity there will be 550,000 kilowatts, making Plant Yates one of the largest in-

(Continued on page 26)

### Common and Preferred Dividend Notice

January 25, 1956

The Board of Directors of the Company has declared the following quarterly dividends, all payable on March 1, 1956, to stockholders of record at close of business February 6, 1956:

	Amount per Share
Preferred Stock, 5.50% First Preferred Series	\$1.37½
Preferred Stock, 5.00% Series	\$1.25
Preferred Stock, 4.75% Convertible Series	\$1.18¾
Preferred Stock, 4.50% Convertible Series	\$1.12½
Common Stock	\$0.35

*W. H. Hargrove*  
Secretary

**TEXAS EASTERN** Transmission Corporation  
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## INDUSTRIAL PROGRESS—(Continued)

vestor-owned generating plants in the South.

Plant Yates already has three 100,000-kilowatt units, with a fourth scheduled for completion in 1957 and a fifth in 1958. Both units under construction are 125,000 kilowatts.

### Companies to Share Atomic Information

FOUR power companies serving the Carolinas have formed a committee to discuss information on atomic fuels for power generation.

H. B. Robinson, general manager of Carolina Power & Light Company, said a four-man committee to exchange ideas on nuclear energy will represent Carolina Power & Light Company, Duke Power Company, Virginia Electric Power Company and South Carolina Electric and Gas Company.

The committee grew out of a recent conference of executives of the four companies. In addition to acting as an "information exchange center," the group later may serve in an advisory capacity.

Its members are: Raymond Talton,

production engineer, CP&L; H. W. Oetinger, executive assistant, Duke; R. M. Hutcheson, system manager-production, VEPCO; and George Dibble, manager of production and transmission, SCE&G.

### New 1500 MVA Oil Circuit Breaker Developed by Federal Pacific

A NEWLY developed oil circuit breaker, conservatively rated at 1500 mva for 115-kv, 800-ampere service has been announced by R. W. Hutchinson, product sales manager for the Pacific Switchgear Division, Federal Pacific Electric Company, San Francisco, California.

The new breaker, designated as type JHE-54, features two-break rotary design with type OA-4 hydraulic operating mechanism. Thorough laboratory tests indicate that its interrupting ability is beyond the conservative rating of 1500 mva. Its design facilitates adjustment and maintenance and contributes to unusually quiet operation during 5-cycle operating time.

Type JHE-54 breakers are skid

mounted and shipped completely assembled with bushings in place. Detailed description of the new breaker may be obtained on request to the Pacific Switchgear Division, 5815 Third Street, San Francisco 24, California.

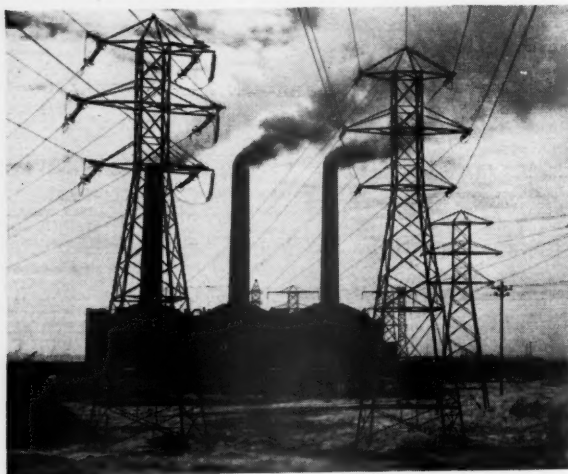
### Arizona Public Service to Spend \$16,786,400 on Construction

APPROVAL of a \$16,786,400 construction budget for 1956 has been announced by John M. Jacobs, chairman of the board of directors of Arizona Public Service Company.

Mr. Jacobs pointed out that total construction expenditures are lower than in previous years because no generating installations are planned for 1956. He emphasized, however, that this is the largest amount ever spent by the company in any one year to build and improve electric and gas facilities other than generating units.

Of the total, \$11,242,000 will be spent for the company's electric system, \$3,162,200 for gas facilities, \$1,522,000 for the electronic Data Processing System and \$860,200 for general properties.

(Continued on page 28)



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## INDUSTRIAL PROGRESS—(Continued)

Mr. Jacobs also announced that the directors had given the "go ahead" signal for the purchase of a Univac Electronic Data Processing System from the Remington Rand division of Sperry Rand Corporation. Company employees, outside consultants and a scientific research organization have spent more than sixteen months in intensive study of the Univac and other types of similar machines, said Mr. Jacobs. These studies show that the use of an electronic data processing system will not only result in monetary savings but will streamline many company operations to a high degree of efficiency, Jacobs stated.

### **\$35,014,000 Expansion Planned By Alabama Power**

ALABAMA Power Company announced recently that its board of directors had approved a construction budget of \$35,014,000. This is the sixth consecutive year that the company's construction expenditures have been more than \$25 million.

Among important items are nearly nine million for the completion in

1956 of the installation of a 156,250 kilowatt generating unit at the new \$25 million No. 3 plant at Gorgas. Another generating unit of 190,000 kilowatt capacity has been ordered for this plant; construction on the extension to house it will get under way before spring. Total cost of this building extension and generating unit, scheduled for completion in 1958, also will be approximately \$25 million.

If the company receives necessary approvals it will proceed with its Coosa river projects. The cost of these projects has been announced as approximately \$110 million. Officials of the company also hope that it will be possible to start work on the Warrior river projects before the end of 1956. The Warrior projects include a dam and hydro generating plant near New Hope, and installation of generator at the U. S. Government Lock 17 at an estimated total cost of nearly \$41 million.

Transmission line and substations improvements will cost nearly \$6½ million, while additions, extension and improvements in distribution facilities will total over \$13 million.

### **Power Reactor Development Company Formed**

THE Power Reactor Development Company, a non-profit corporation has been formed to design, construct and operate a developmental fast-neutron breeder reactor, it was announced recently by The Babcock & Wilcox Company, one of the 26 firms involved in the project.

The new organization will carry out the atomic reactor power plant project initiated by The Detroit Edison Company and a number of other electric power, manufacturing and engineering concerns including B&W. This project was proposed last March as a part of the U. S. Atomic Energy Commission's Power Demonstration Reactor Program. The AEC announced on August 8th that the proposal provided an acceptable basis for negotiations under that program.

The new company was organized to consolidate the efforts of those having an interest in breeder reactor development. Most of the companies now

*(Continued on page 30)*

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This machinist is "miking" a disc for one of the largest butterfly valves ever built — 192" diameter. Newport News built 3 such valves, each weighing 446,000 lbs., for the Ross Power Plant, Skagit Project, Department of Light, City of Seattle, Washington. Designed for a water flow of 3,620 cu. ft. per sec., and a hydrostatic pressure of 290 psi., these valves were shop tested by Newport News at 450 psi. They are hydraulically operated with oil at 1,500 psi. pressure.

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## INDUSTRIAL PROGRESS

(Continued)

involved in the proposed construction project have been engaged in atomic power plant research and development for five years or more. Babcock & Wilcox formed an Atomic Energy Division in April, 1953 to consolidate the firm's activities in the field. Power Reactor Development Company will represent the interests of the 26 companies involved.

It was pointed out that the new organization seeks no exclusive benefit as a result of this project. The company is dedicated to research and development in the use of nuclear fuels and the results will be made available to the Atomic Energy Commission and to others as directed by the Commission. Walker L. Cisler, president of The Detroit Edison Company, has been elected president of the new corporation.

Further organization for the carrying out of the project is now being perfected, and the work is expected to move forward rapidly. In an application for the necessary licenses, filed recently with the Commission, it was stated that, subject to AEC approval, the reactor would be built on property owned by Detroit Edison.

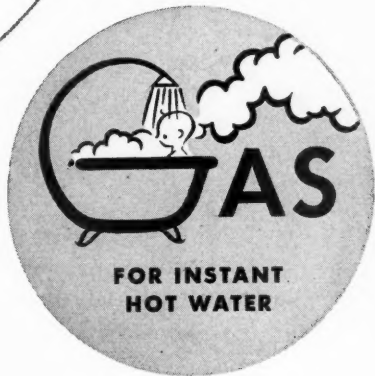
## Appalachian Electric to Build 450,000 KW Plant

PLANS for the construction of a major steam-electric generating plant in southwest Virginia by the Appalachian Electric Power Company were announced recently by Philip Sporn, president of Appalachian and its parent company, American Gas and Electric Company.

The plant will be built on property of the Clinchfield Coal Corporation. Joseph P. Routh, chairman of The Pittston Company and of Clinchfield, Pittston's subsidiary, said that Clinchfield was setting aside 40,000,000 tons from its large reserves which would be dedicated to supply coal for the new plant over a 30-year period under the contract with Appalachian.

The power station will be known as the Clinch river plant, will have an initial generating capacity of 450,000 kilowatts, and will cost an estimated \$55,000,000. It is the second plant of this size to be announced for the AGLS System in the past week.

Coal from the extensive Clinchfield property will provide fuel for the plant's two 225,000-kilowatt generating units. Together they are expected to consume a total of 1,300,000 tons of coal per year, all of which will be supplied by the Clinchfield Coal Corporation.



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**CHARLESTON GROUP:** United Fuel Gas Company, Atlantic Seaboard Corporation, Amere Gas Utilities Company, Virginia Gas Distribution Corporation, Big Marsh Oil Company, Central Kentucky Natural Gas Company; **COLUMBUS GROUP:** The Ohio Fuel Gas Company; **PITTSBURGH GROUP:** The Manufacturers Light and Heat Company, Binghamton Gas Works, Cumberland and Allegheny Gas Company, Home Gas Company, The Keystone Gas Company, Inc., Natural Gas Company of West Virginia; **OIL GROUP:** The Preston Oil Company.

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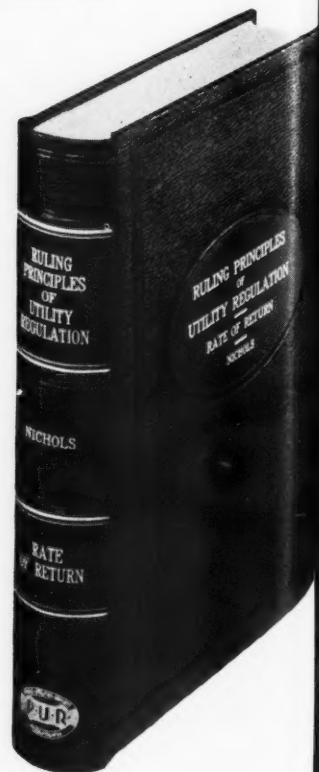
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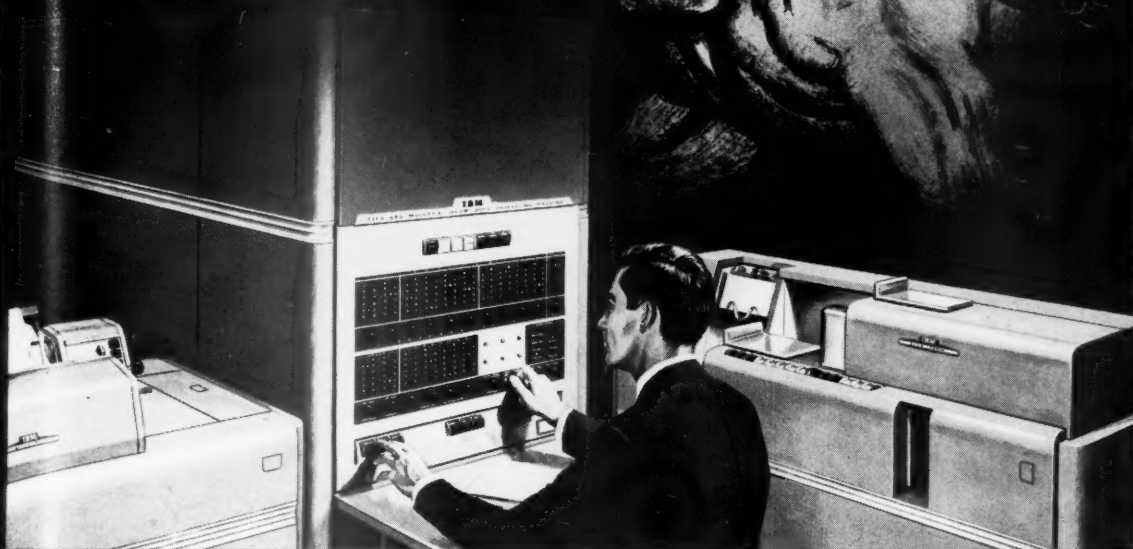
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